(Millions of Kazakhstani Tenge)

4. Summary of significant accounting policies (continued)

Financial assets

Initial recognition of financial instruments

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that an asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets; the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They include equity instruments, short-term instruments and other debt instruments. After initial recognition available-for sale financial investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. However, interest calculated using the effective interest method is recognised in the consolidated statement of income.

Determination of fair value

The fair value for financial instruments traded in active market at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Related parties

Related parties include the Bank's shareholders, key management personnel, close members of the key management personnel, investees and associates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from National Bank of Kazakhstan (the "NBK") – excluding obligatory reserves, and amounts due from other financial institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory reserves

Obligatory reserves represent mandatory reserve deposits and cash which are not available to finance the Bank's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statements.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets (unrealised gain) when fair value is positive and as liabilities (unrealised loss) when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as net trading income or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as a separate derivative and recorded at fair value if their risks and economic characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. At 31 December 2008 and 2007 embedded derivatives held by the Group were not material.

4. Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of specific assets and the arrangement conveys a right to use the asset.

I. Finance – Group as lessor

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

II. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included in administrative and operating expenses.

III. Operating – Group as lessor

The Group presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognized in the statement of income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and other tax authorities, and of the jurisdictions in which the Group has offices, branches or subsidiaries.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Kazakhstan also has various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

4. Summary of significant accounting policies (continued)

Allowances for impairment of financial assets

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statements of income – is removed from equity and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the consolidated statement of income.

4. Summary of significant accounting policies (continued)

Allowances for impairment of financial assets

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to special purposes entities which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Reference should be made to the accounting policy on "Derecognition of financial assets and liabilities". Interests in the securitised financial assets may be retained by the Group and are primary classified as loans and receivables. Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of the transfer.

4. Summary of significant accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

Property and equipment

Property and equipment are carried at cost excluding costs of day-to-day maintenance less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in other administrative and operating expenses.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	40
Furniture and fixtures	4-10
Computers	4
Office equipment	8
Land	–
Construction in process	–

Depreciation on assets under construction is charged only when the assets are available for use and transferred into relevant property and equipment categories.

Expenses related to repairs and renewals are recorded in income statement and included in administrative and operating expenses unless they qualify for capitalization.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on the derecognition of the asset is included in the consolidated statement of income.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

4. Summary of significant accounting policies (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognised in the consolidated statement of income.

Amounts due to Government and central banks, credit institutions and customers

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to Government and central banks, credit institutions and to customers and initially recognised at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statements of income over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated balance sheets and the difference between the carrying amount of the liability and the consideration paid is recognised in net interest income.

Debt securities issued

Debt securities issued represent bonds issued by the Group. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in salaries and benefits in consolidated statements of income. The Group has contributed social tax to the budget of the Republic of Kazakhstan for its employees. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

4. Summary of significant accounting policies (continued)

Equity

Issued capital

Ordinary shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Treasury shares

Where the Bank or its subsidiaries purchase the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but disclosed unless the possibility of any outflow of economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Trust activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

(Millions of Kazakhstani Tenge)

4. Summary of significant accounting policies (continued)

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Underwriting income (loss)

Underwriting income (loss) includes net written insurance premiums and commissions earned on ceded insurance reduced by the net change in the unearned premium reserve, claims paid, the provision of insurance losses and loss adjustment expenses, and policy acquisition costs.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a prorata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the consolidated balance sheet.

Losses and loss adjustments are charged to the consolidated statement of income as incurred through the reassessment of the reserve for losses and loss adjustment expenses.

Commissions earned on ceded reinsurance contracts are recognised in income as incurred.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the consolidated balance sheet within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses are included in the consolidated balance sheet within other liabilities and is based on the estimated amount payable on claims reported prior to the balance sheet date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

Due to the absence of prior experience, the reserve for incurred but not reported claims ("IBNR") was established as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. The resulting adjustments are reflected in income.

Reinsurance

In the ordinary course of business, the Group cedes insurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the consolidated balance sheet within other assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the Group to the reinsurer.

Foreign currency translation

The consolidated financial statements are presented in Kazakh Tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate quoted by KASE and reported by the NBK at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

Differences between the contractual exchange rate of a transaction in foreign currency and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rates at 31 December 2008 and 2007 were KZT 120.79 and KZT 120.30 to USD 1, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into KZT at the rate of exchange ruling at the balance sheet date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in equity relating to that particular entity is recognised in the consolidated statement of income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

5. Significant accounting judgements and estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Special purpose entities

Although the Group did not own any direct shares in the capital of First Kazakh Securitization Company, Second Kazakh Securitization Company and BTA DPR Company for the purposes of these consolidated financial statements, they were treated as subsidiaries, in accordance with SIC-12 "Consolidation – Special Purpose Entities", since the Group controlled and benefited directly from these entities' operations;

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The most significant estimates with regard to these financial statements relate to the allowances for impairment of assets, reserves for insurance claims, income taxes, fair values of securities and properties, and other provisions. These estimates are based on information available as at the date of the financial statements. Actual results, therefore, could differ from these estimates.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

5. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Allowance for impairment of loans and receivable (continued)

As described in Note 2, during 2008, the quality of the Bank's loan portfolio has significantly deteriorated as a result of circumstances and actions taken before the current management of the Bank were appointed by the controlling shareholder. Certain loan documentation, including collateral and associated additional agreements, primarily relating to financing of projects outside Kazakhstan, is no longer available. In addition, many loans were transferred to new borrowers that do not have adequate sources of repayment. Moreover, no collateral was provided by these new borrowers. Consequently all transferred loans are unsecured. A number of significant borrowers, primarily registered outside Kazakhstan, have ceased servicing their loans, have not allowed the Bank to monitor collateral or failed to provide information about their financial performance.

While the Bank continues its efforts related to the recovery of the above loans, the Bank's Management considers that loans where a borrower fails to service debt, monitoring of the borrowers has not been possible, there is neither properly registered collateral nor other necessary legal documentation, to be fully impaired and has created an allowance for the full carrying amount of such loans.

In addition, the ongoing financial crisis has affected the borrowers' ability to service their obligations and the value of collateral.

As a result of the above, in 2008 the Bank has recorded an impairment charge for losses on loans to customers of KZT 1,090,127 million.

Write-off of available-for-sale investment securities

During 2008 the Bank placed certain available-for-sale securities with a carrying amount of KZT 35,402 million with a custodian in an offshore jurisdiction. Subsequent to 31 December 2008, the Bank received a statement from its custodian, which indicated that these securities were disposed of in January 2009. No consideration was received by the Bank from this disposal. The Bank initiated an internal investigation with respect to the disposal and passed the information to the Procuracy of the Republic of Kazakhstan and FMSA. Management of the Bank believes that the circumstances above indicate that these securities were not recoverable as at 31 December 2008. Therefore, these securities have been fully written-off as at 31 December 2008.

Allowance for counterparty risk – off-shore derivatives

The Managing Board considers that some of the Bank's derivative financial assets with off-shore counterparties during 2008 have become uncollectible. The counterparties under these agreements did not respond to the Bank's inquiries. In addition, the Bank was not able to collect the amounts receivable under such agreements that expired subsequent to 31 December 2008. Therefore, the new Managing Board of the Bank decided to fully provide against these receivables on derivative financial assets with these counterparties as at 31 December 2008 for the aggregate amount of KZT 16,298 million.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was KZT 37,421 million (2007- KZT 37,557 million). More details are provided in Note 15.

Taxation

Kazakh tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(Millions of Kazakhstani Tenge)

5. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of IBNR claims at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claim estimates are reassessed for adequacy and changes made are made to the provision. General insurance claims provisions are not discounted for the time value of money.

6. Business combination

During 2008 the Group increased its shareholdings from 49.00% to 99.29% of voting shares in BTA Bank CJSC (Belorussia) following the approval from Kazakh regulatory authorities. In July 2008, the share in BTA Bank LLC (Russia) increased from 14.20% to 52.84%. As described in Note 3, in November 2008 BTA Bank LLC (Russia) issued additional shares in the amount of RUR 7,200 million (equivalent of KZT 31,968 million). The Bank did not use its preemptive right to purchase these shares. As a result the Bank's share in BTA Bank LLC (Russia) decreased to 22.26% resulting in a loss from deemed disposal in the amount of KZT 12,095 million.

The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition of BTA Bank CJSC (Belorussia) was:

	Fair value recognized on acquisition	
	BTA Bank CJSC (Belorussia)	
	30 November 2004	*30 October 2008*
Cash and cash equivalents	21	1,670
Obligatory reserves	–	343
Financial assets at fair value through profit or loss	97	
Investment securities	39	1,218
Amounts due from credit institutions	419	270
Loans to customers	985	11,866
Property, plant and equipment	260	390
Current income tax asset	–	32
Other assets	385	88
Total assets	**2,206**	**15,877**
Amounts due to credit institutions	674	8,000
Due to customers	161	5,601
Debt securities issued	1	–
Other liabilities	256	85
Total liabilities	**1,092**	**13,686**
Fair value of net assets	**1,114**	**2,191**
Group's share in fair value of net assets	546	1,103
Goodwill	(220)	2,398
Cost of acquisition	326	3,501
Cash received from acquisition	21	1,670
Cash paid	(326)	(3,501)
Net cash received / (paid)	(305)	(1,831)

If the combination had taken place at the beginning of 2008, the total net operating loss for 2008 for the Group would have been KZT 1,003 million less at KZT 1,009,273 million and the total loss for the year would have been KZT 204 million less at KZT 1,187,846 million.

(Millions of Kazakhstani Tenge)

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	2008	*2007*
Cash on hand	5,248	12,826
Current accounts with other financial institutions	34,931	29,816
Current accounts with central banks	195	–
Time deposits with other financial institutions with contractual maturity of 90 days or less	27,200	40,602
Reverse repurchase agreements with contractual maturity of 90 days or less	20,109	16,479
Time loans with contractual maturity of less than 90 days from the date of origination	238	–
Cash and cash equivalents, gross	87,921	99,723
Less – Allowance for impairment	(28)	–
Cash and cash equivalents	87,893	99,723

The Group has entered into reverse repurchase agreements with Kazakhstani banks. The subject of these agreements was mainly corporate securities issued by Kazakhstani companies. Fair value of the collateral as at 31 December 2008 was KZT 29,406 million (2007 – KZT 19,198 million).

At 31 December 2008 balances with ten banks accounted for 72.81% of total cash and cash equivalents (2007 – balances with ten banks accounted for 54.24% of total cash and cash equivalents).

8. Obligatory reserves

Obligatory reserves comprise:

	2008	*2007*
Due from the NBK	27,601	139,366
Cash on hand allocated to obligatory reserves	36,453	28,876
Obligatory reserves	64,054	168,242

Under Kazakh legislation, the Group is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Group. Such reserves must be held in either non-interest bearing deposits with the NBK or in physical cash computed based on average monthly balances of the aggregate of non-interest bearing deposits with the NBK and physical cash in national and hard currencies during the period of reserves creation. The use of such funds is, therefore subject to certain restrictions.

In 2008 in accordance with the financial markets stability program, the NBK decreased obligatory reserve requirements from 6% to 2% for domestic liabilities, and from 8% to 3% for external debt.

9. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	2008	*2007*
Debt securities:		
Corporate bonds	59,979	46,241
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	25,019	19,156
Notes of the NBK	9,918	3,707
Bonds of Kazakhstan non-financial institutions	4,841	–
Sovereign bonds of OECD countries	3,793	6,694
Bonds of Kazakhstan financial institutions	2,887	6,881
Bonds of international financial organizations	80	76
Treasury bills of the Ministry of Finance of Russian Federation	2	3
Municipal bonds	–	264
	106,519	83,022
Equity securities	21,631	29,100
Mutual funds shares	–	53
Financial assets at fair value through profit or loss	128,150	112,175
Subject to repurchase agreements	65,472	60,129

(Millions of Kazakhstani Tenge)

10. Amounts due from credit institutions

Amounts due from credit institutions as at 31 December comprise:

	2008	*2007*
Loans	70,224	88,221
Deposits	19,389	19,491
	89,613	107,712
Less – Allowance for impairment	(4,439)	(123)
Amounts due from credit institutions	85,174	107,589

As at 31 December 2008 amounts due from ten largest credit institutions comprised 80.17% of total amounts due from credit institutions (31 December 2007 – ten largest comprised 58.87%).

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	2008	*2007*
1 January	123	80
Impairment charge	4,173	396
Write-offs	–	(355)
Recovery	313	–
Revaluation	(170)	2
31 December	4,439	123

11. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as at 31 December and are indicative of neither the market risk nor the credit risk.

	2008			*2007*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Currency swaps	136,115	562	(472)	358,631	22,004	(1,501)
Currency forwards and futures	201,038	6,961	(1,420)	204,128	6,391	(247)
Securities forwards	19,864	10,136	–	–	–	–
Interest rate swaps	462,318	20,289	(16,897)	392,888	2,739	(3,780)
Options	–	–	–	5,177	263	–
Total derivative assets/liabilities, gross		37,948	(18,789)		31,397	(5,528)
Less - Allowance (Note 16)		(16,298)	–		–	–
Total derivative assets/liabilities		21,650	(18,789)		31,397	(5,528)

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates.

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

(Millions of Kazakhstani Tenge)

12. Available-for-sale investment securities

Available-for-sale investment securities as at 31 December comprise:

	2008	*2007*
Bonds of international financial organizations	**35,402**	–
Corporate bonds	**15,142**	14,179
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**2,129**	–
Treasury bills of the Ministry of Finance of the Republic of Belarussia	**912**	–
Treasury bills of the Ministry of Finance of Kyrgyzstan	**409**	410
Bonds of Kazakhstan financial institutions	**312**	24
Notes of the NBK	**218**	1,165
Sovereign bonds of OECD countries	**–**	3,697
Notes of the National Bank of Kyrgyzstan	**–**	1,390
	54,524	20,865
Equity securities	**8,536**	5,557
Mutual fund shares	**32**	–
Available-for-sale investment securities, gross	**63,092**	26,422
Less – Write-off	**(42,610)**	–
Available-for-sale investment securities	**20,482**	26,422

As discussed in Note 5, during 2008 the Bank placed certain available-for-sale securities with a carrying amount of KZT 35,402 million with a custodian in an offshore jurisdiction. Subsequent to 31 December 2008, the Bank received a statement from its custodian, which indicated that these securities were disposed of in January 2009. No consideration was received by the Bank from this disposal. The Bank initiated an internal investigation with respect to the disposal and passed the information to the Procuracy of the Republic of Kazakhstan and FMSA. Management of the Bank believes that the circumstances above indicate that these securities were not recoverable as at 31 December 2008. Therefore, these securities have been fully written-off as at 31 December 2008.

During 2008 the Group has recognized an impairment loss on equity securities in the amount of KZT 7,208 million (2007 – nil).

In accordance with amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Bank reclassified certain financial assets acquired for the purpose of current liquidity management from held for trading category because the Bank no longer had an intention to sell them in the near term. Reclassification was performed as at 1 July 2008 at fair value at that date. The impact of this reclassification is presented below:

	Financial assets held for trading were reclassified into *Financial assets available for sale category*
Fair value at the date of reclassification	**35,420**
Carrying amount of reclassified assets as at 31 December 2008	**35,402**
Write-off of reclassified available-for-sale securities	**(35,402)**
Fair value of reclassified assets as at 31 December 2008	**–**
Losses from change in fair value of reclassified assets recognized before reclassification for the year ended 31 December 2008	**(546)**
Interest income recognized after reclassification in income statement for the year ended 31 December 2008	**728**
Effective interest rate at the date of reclassification	**4.06%**
Cash flows expected to be reimbursed at the date of reclassification	**41,376**

(Millions of Kazakhstani Tenge)

13. Loans to customers

Loans to customers comprise:

	2008	*2007*
Corporate lending	2,071,991	1,669,648
Small and medium business lending	256,833	300,325
Individuals lending	505,517	546,880
Gross loans to customers	2,834,341	2,516,853
Less – Allowance for impairment	(1,217,278)	(137,043)
Loans to customers	1,617,063	2,379,810

Gross loans have been extended to the following types of customers:

	2008	*2007*
Private companies	2,321,272	1,963,281
Individuals	505,517	546,880
State companies	7,353	6,609
Other	199	83
Loans to customers, gross	2,834,341	2,516,853

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending 2008	*Small and medium business lending 2008*	*Individuals lending 2008*	*Total 2008*
At 1 January 2008	111,502	23,231	2,310	137,043
Charge for the year	1,067,075	(824)	23,876	1,090,127
Amounts written off	(1,705)	(2,818)	(6,006)	(10,529)
Recoveries	308	1,606	2,485	4,399
Revaluation	(868)	(33)	(249)	(1,150)
Amount arising from disposal of subsidiaries	(2,002)	–	(610)	(2,612)
At 31 December 2008	1,174,310	21,162	21,806	1,217,278
Individual impairment	1,141,870	9,094	15,031	1,165,995
Collective impairment	32,440	12,068	6,775	51,283
	1,174,310	21,162	21,806	1,217,278
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,355,897	15,637	25,846	1,397,380

	Corporate lending 2007	*Small and medium business lending 2007*	*Individuals lending 2007*	*Total 2007*
At 1 January 2007	60,759	8,336	1,095	70,190
Charge for the year	51,913	13,746	1,755	67,414
Amounts written off	(4,339)	(1,073)	(1,124)	(6,536)
Recoveries	3,068	2,108	547	5,723
Amounts arising from business combination	101	114	37	252
At 31 December 2007	111,502	23,231	2,310	137,043
Individual impairment	56,335	4,248	–	60,583
Collective impairment	55,167	18,983	2,310	76,460
	111,502	23,231	2,310	137,043
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	264,893	18,868	–	283,761

(Millions of Kazakhstani Tenge)

13. Loans to customers (continued)

Individually impaired loans

As described in Note 5, during 2008, the quality of the Bank's loan portfolio has significantly deteriorated. Certain loan documentation, including collateral and associated additional agreements, primarily relating to financing of projects outside Kazakhstan, is no longer available. In addition, many loans were transferred to new borrowers that do not have adequate sources of repayment. Moreover, no collateral was provided by these new borrowers. Consequently all transferred loans are unsecured. A number of significant borrowers, primarily registered outside Kazakhstan, have ceased servicing their loans, have not allowed the Bank to monitor collateral or failed to provide information about their financial performance.

While the Bank continues its efforts related to the recovery of the above loans, the Bank's Management considers that loans where a borrower fails to service debt, monitoring of the borrowers has not been possible, there is neither properly registered collateral nor other necessary legal documentation, to be fully impaired and has created an allowance for the full carrying amount of such loans.

In addition, the ongoing financial crisis has affected the borrowers' ability to service their obligations and the value of collateral.

As a result of the above, in 2008 the Bank has recorded an impairment charge for losses on loans to customers of KZT 1,090,127 million.

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2008, comprised KZT 141,743 million (2007: KZT 20,073 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2008 amounts to KZT 583,015 million (2007: KZT 329,678 million). In accordance with the NBK requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees of third parties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries and civil liability insurance agreements.

Management requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

During the year, the Group took possession of collateral with an estimated value of KZT 11,207 million which the Group is in the process of selling (2007 – KZT 503 million). It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2008 was KZT 83,629 million (2007- KZT 36,068 million).

Derecognition of a loan portfolio

The Group has been periodically selling part of its mortgage loan portfolio to Kazakhstan Mortgage Company ("KMC"), with full recourse to the Group for any default loan. The Group has determined that, as a result of these transactions, substantially all the risks and rewards of the portfolio have not been transferred to KMC. Therefore, the Group continues to recognise these loans as an asset on its consolidated balance sheet with the corresponding liability recorded in loans from financial institutions for the same amount. As at 31 December 2008 these loans amounted to KZT 9,082 million.

As at 31 December 2008 loans to customers include loans of KZT 64,917 million, which are pledged as collateral for the mortgage-backed bonds (31 December 2007 – KZT 62,724 million).

(Millions of Kazakhstani Tenge)

17. Taxation (continued)

A reconciliation between income tax expense in the accompanying consolidated financial statements and income before taxes multiplied by the statutory tax rate for the years ended 31 December is as follows:

	2008	*2007*
Accounting profit before income tax	(1,188,117)	74,537
Statutory tax rate	30%	30%
Theoretical income tax (benefit) / expense at the statutory rate	(356,435)	22,361
Non-deductible impairment charge	23,411	132
Non-deductible interest expenses	–	422
Non-deductible losses from disposal of subsidiaries	3,376	–
Non-deductible business expenses	1,110	787
Impairment loss on goodwill	2,432	–
Write-down of inventories	719	–
Non taxable income on long-term loans granted for the purchase of property and equipment by legal entities and mortgage loans and financial leasing	(241)	(6,942)
Non taxable income on state securities and securities at the highest and next to the highest listing categories	(496)	(1,915)
Non taxable income from associates	4,634	(1,225)
Income of subsidiaries taxed at different rates	(2,347)	(3,421)
Differences arising from changes in tax rates	131,997	–
Change in unrecognised deferred tax assets	192,315	–
Other permanent differences	(542)	(367)
Income tax (benefit) / expense	(67)	9,832

Deferred tax balances, calculated by applying the statutory tax rates in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, comprised the following at December 31:

	2006	*Origination and reversal of temporary differences in statement of income*	*Origination and reversal of temporary differences in equity*	*2007*	*Origination and reversal of temporary differences in statement of income*	*Origination and reversal of temporary differences in equity*	*2008*
Tax effect of deductible temporary differences:							
Allowances for loan impairment	–	4,906	–	4,906	189,653	–	194,559
Fair value measurement of securities	366	1,057	221	1,644	4,783	11	6,438
Interest written-off	–	–	–	–	1,684	–	1,684
Property and equipment	–	–	–	–	56	–	56
Other	417	598	–	1,015	417	–	1,432
Gross deferred tax assets	783	6,561	221	7,565	196,593	11	204,169
Unrecognised deferred tax assets	–	–	–	–	(192,315)	–	(192,315)
Deferred tax asset	783	6,561	221	7,565	4,278	11	11,854
Tax effect of taxable temporary differences:							
Allowances for impairment	(1,540)	(107)	–	(1,647)	1,647	–	–
Fair value measurement of securities	(122)	(4,393)	(14)	(4,529)	(2,263)	(12)	(6,804)
Property and equipment	(226)	(476)	–	(702)	702	–	–
Other	–	(4)	–	(4)	–	–	(4)
Deferred tax liability	(1,888)	(4,980)	(14)	(6,882)	86	(12)	(6,808)
Deferred tax assets / (liability)	(1,105)	1,581	207	683	4,364	(1)	5,046

(Millions of Kazakhstani Tenge)

17. Taxation (continued)

Tax loss carry-forward represents losses which arose from changes in the fair market value of certain securities. Losses from such securities are deductible only to the extent that they can be offset against gains from similar securities. In accordance with the tax legislation, such losses can be carried forward and offset against gains from similar securities during a period of 3 years from the year a loss occurs.

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The main taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, different opinions regarding legal interpretation exist both among and within government authorities; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take different positions with regard to interpretive issues.

In accordance with amendments in the Tax Code of the Republic of Kazakhstan adopted in 2008, interest income on mortgage loans issued to individuals for a term of more than three years is subject to tax. Previously such income was tax exempt. Also in accordance with applicable tax legislation, at 31 December 2008, 30% corporate income tax rate applied will be reduced to 20.0%, 17.5%, 15.0% in 2009, 2010 and 2011, respectively.

18. Amounts due to the Government and central banks

Amounts due to the Government and central banks consist of the following:

	2008	*2007*
Amounts due to the Government:		
Interest bearing – KZT denominated	1,292	370
Interest bearing – USD denominated	193	174
Interest bearing – EUR denominated	136	212
Interest bearing – KGS denominated	55	107
Loans from the NBK	28	28
Loans from the National Bank of Kyrgyzstan	14	22
Amounts due to the Government and central banks	1,718	913

19. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2008	*2007*
Loans from OECD based banks and financial institutions	451,737	455,384
Syndicated bank loans	156,617	241,157
Loans from Kazakh banks and financial institutions	126,434	51,329
Loans from other banks and financial institutions	24,201	26,609
Pass-through loans	17,278	9,482
	776,267	783,961
Interest-bearing placements from Kazakh banks	21,112	46,021
Loro accounts	2,503	1,288
Interest-bearing placements from non OECD banks	3,484	4,034
	27,099	51,343
Amounts due to credit institutions	803,366	835,304
Subject to repurchase agreements	65,472	60,129

Financial covenants

In accordance with the contractual terms of loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies. As at 31 December 2008 the Bank was in breach of capital adequacy, lending exposure and cross default covenants on these loan facilities. As a result these loan facilities for the total amount of KZT 492,324 million became due immediately. As discussed in Note 2, the Bank is in the process of restructuring these debts.

(Millions of Kazakhstani Tenge)

19. Amounts due to credit institutions (continued)

The Bank was in breach of these capital adequacy, lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

Due to the Bank's inability to early repay all its debt as called by creditors in full, the Bank may not be able to meet all its obligations. Subsequent to 31 December 2008, certain lenders have requested repayment of debts amounting to USD 550 million or equivalent of KZT 83 billion, citing default and/or acceleration clauses. If those lenders continue to exercise and other lenders seek to exercise rights under acceleration and default clauses, the Bank may not be able to meet its obligations.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder and the management considers that the restructuring of the above facilities will be completed in 2009.

20. Amounts due to customers

The amounts due to customers included balances in customer current accounts, time deposits, and certain other liabilities, and include the following:

	2008	*2007*
Time deposits	**684,330**	463,450
Current accounts	**179,658**	165,685
Guarantee and restricted deposits	**22,064**	23,373
Amounts due to customers	**886,052**	652,508

Guarantee and restricted deposits represent customer's collateral under letters of credit and guarantees issued by the Bank on behalf of clients.

At 31 December 2008, the Bank's ten largest customers accounted for approximately 34.80% of the total amounts due to customers (2007 – 20.45%).

The amounts due to customers included balances in customer current accounts and term deposits, and were analysed as follows:

	2008	*2007*
Time deposits:		
Commercial entities	**201,240**	130,973
Individuals	**262,644**	235,620
Governmental entities	**218,209**	95,317
Non-commercial entities	**2,237**	1,540
Current accounts:		
Commercial entities	**124,350**	125,400
Individuals	**33,864**	31,222
Governmental entities	**20,371**	7,921
Non-commercial entities	**1,073**	1,142
Guarantees and other restricted deposits:		
Commercial entities	**10,762**	9,121
Individuals	**10,837**	13,583
Governmental entities	**463**	666
Non-commercial entities	**2**	3
Amounts due to customers	**886,052**	652,508

Included in time deposits are deposits of individuals in the amount of KZT 262,644 million (2007 – KZT 235,620 million). In accordance with the Civil Code of the Republic of Kazakhstan, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

(Millions of Kazakhstani Tenge)

20. Amounts due to customers (continued)

An analysis of customer accounts by sector follows:

	2008	*%*	*2007*	*%*
Individuals	307,345	34.7%	280,425	43.0%
Oil and gas	233,290	26.3%	86,213	13.2%
Wholesale trading	81,303	9.2%	52,003	8.0%
Construction	49,060	5.5%	33,623	5.2%
Transportation	33,113	3.7%	41,388	6.3%
Energy	30,788	3.5%	3,978	0.6%
Government investment funds	28,501	3.2%	11,071	1.7%
Non-credit financial organizations	19,226	2.2%	38,578	5.9%
Research and development	11,594	1.3%	6,622	1.0%
Metallurgy	11,475	1.3%	12,024	1.8%
Education	7,014	0.8%	5,938	0.9%
Machinery and equipment production	5,873	0.7%	6,652	1.0%
Communication	5,425	0.6%	2,429	0.4%
Retail trade	4,265	0.5%	8,691	1.3%
Agriculture	3,887	0.4%	6,596	1.0%
Mining	1,912	0.2%	3,688	0.6%
Textile and leather industry	1,607	0.2%	1,235	0.2%
Chemical processing	1,480	0.2%	5,720	0.9%
Entertainment	1,241	0.1%	1,207	0.2%
Food industry	1,091	0.1%	3,620	0.6%
Hotel and hospitality	353	0.0%	454	0.1%
Other	46,209	5.3%	40,353	6.1%
	886,052	100.0%	652,508	100.0%

21. Debt securities issued

As at 31 December debt securities issued consisted of the following:

	2008	*2007*
USD bonds with fixed rate	411,068	434,793
USD and KZT subordinated bonds with fixed rate	174,271	104,720
USD bonds with floating rate	165,251	169,471
EUR bonds with fixed rate	85,844	90,108
JPY bonds with floating rate	57,598	48,520
USD perpetual financial instruments with fixed rate	54,623	54,420
KZT bonds with floating rate	39,555	35,187
GBP bonds with fixed rate	34,926	48,072
KZT bonds with fixed rate	28,358	66,762
JPY bonds with fixed rate	26,609	21,886
CHF bonds with floating rate	23,147	21,598
KZT subordinated bonds with floating rate	21,756	21,715
RUR bonds with fixed rate	12,555	15,023
PLZ bonds with floating rate	8,162	9,846
RUR deposit certificate	19	–
USD promissory notes with floating rate	–	604
	1,143,742	1,142,725
USD treasury bonds held by Group	(1,359)	(5,579)
KZT treasury bonds held by Group	(3,061)	(2,780)
USD and KZT treasury subordinated bonds held by Group	(22,365)	(21,506)
	1,116,957	1,112,860
Plus unamortized premium	622	983
Less unamortized cost of issuance	(699)	(4,548)
Less unamortized discount	(29,154)	(24,850)
Debt securities issued	1,087,726	1,084,445

In accordance with terms of debt securities issued the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major rating agencies. As at 31 December 2008, the Bank was in breach of capital adequacy, lending exposure and cross-default covenants on debt securities issued. As a result, debt securities issued for the total amount of KZT 693,071 million became due immediately. As discussed in Note 2, the Bank in the process of restructuring these debts.

22. Equity

As at 31 December 2008 and 2007 share capital comprises:

	Common shares			*Non-redeemable CPS*		
	Number of authorized shares	*Number of shares issued*	*Placement value (KZT million)*	*Number of authorized shares*	*Number of shares issued*	*Placement value (KZT million)*
31 December 2006	5,363,050	5,363,050	116,451	–	–	–
Increase in issued capital	3,007,108	3,007,108	186,976	–	–	–
31 December 2007	8,370,158	8,370,158	303,427	–	–	–
Increase in issued capital	467	467	29	100,000	–	–
31 December 2008	8,370,625	8,370,625	303,456	100,000	–	–

Issued capital is recorded net of transaction costs and net of adjustments made during 1997 to adjust the opening balances of the Bank following the combination of Turan Bank and Alem Bank.

As at 31 December 2008 the Group held 30,586 shares of the Bank as treasury shares (2007 –10,146).

At an Extraordinary General Meeting of the Bank held on 22 February 2007, the Bank's shareholders approved the eleventh issue of its common shares and the subsequent increase of the Bank's share capital by the KZT equivalent of USD 1.5 billion, which was registered on 19 March 2007 by FMSA. As a result, in 2007 the Bank increased the number of authorised shares by 3,007,575 common shares. During 2008 the Bank issued 467 common shares at placement value of KZT 62,178 per share totalling KZT 29 million, which were fully issued and paid in 2008 (2007 - 3,007,108 common shares totalling KZT 186,976 million).

At an Extraordinary General Meeting of the Bank held on 14 May 2008, the Bank's shareholders approved the issue of 100,000 convertible cumulative preferred shares ("CPS"), which was registered on 9 June 2008 by the FMSA. As at 31 December 2008 no CPS were issued.

Dividends on CPS

The dividends on convertible preferred shares authorised in 2008 were established at the rate of 11.00% per annum of placement value. No convertible preferred shares were outstanding as at 31 December 2008 and 2007. Accordingly, no dividends on CPS were accrued or paid.

Unrealised gains (losses) on investment securities available-for-sale

This reserve records fair value changes on available-for-sale investments.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

23. Commitments and contingencies

Political and economic environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstani Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstani banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Also, the borrowers of the Group may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group. Due to the fall in prices in global and Kazakhstani securities markets, the Group may face a significant decrease in the fair value of securities pledged as collateral against loans extended by the Group. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

(Millions of Kazakhstani Tenge)

23. Commitments and contingencies (continued)

Political and economic environment (continued)

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable. Also refer to Note 2.

Legal actions and claims

The Group is subject to various legal proceedings related to business operations. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the contingent liabilities mentioned above. Also refer to Note 33.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Group believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at 31 December 2008. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, not reasonably determinable, or both.

Financial commitments and contingencies

As at 31 December the Group's financial commitments and contingencies comprised the following:

	2008	*2007*
Undrawn loan commitments	363,490	334,171
Commercial letters of credit	139,524	150,644
Guarantees	175,196	141,931
	678,210	626,746
Operating lease commitments		
Not later than 1 year	1,199	217
Later than 1 year but not later than 5 years	3,065	1,873
Later than 5 years	5,881	4,792
	10,145	6,882
Less: cash collateral	(22,064)	(23,373)
Less: provisions (Note 16)	(104,893)	(10,577)
Financial commitments and contingencies	561,398	599,678

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral may include deposits held in the bank, government's and international prime financial organisations' securities, and other assets.

(Millions of Kazakhstani Tenge)

23. Commitments and contingencies (continued)

Trust activities

The Group provides custody services for third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these consolidated financial statements. As at 31 December 2008 such securities held in this capacity were KZT 294,852 million (2007 – KZT 282,908 million).

In addition, the Group manages certain pension funds through its specialised subsidiary. Below presented are statements of net assets available for pension benefits as well as changes in net assets available for pension benefits at 31 December 2008 and 2007 of the pension fund under management.

Statement of Net Assets Available for Pension Benefits

As at 31 December net assets available for pension benefits comprise:

	2008	*2007*
Assets		
Cash and cash equivalents	2,228	484
Amounts due from credit institutions:		
- Time deposits with maturity over 90 days or past due	6,107	13,867
- Reverse repurchase agreements	612	2,024
Available-for-sale investment securities:		
- Sovereign bonds of the Republic of Kazakhstan	17,388	13,489
- Corporate bonds	54,381	66,477
- Corporate shares	29,783	14,655
-Euro notes	–	14,422
Investment securities, held to maturity:		
- Agency bonds	460	–
- Corporate bonds	66,887	–
Accrued investment income	1,996	408
Other receivables	181	20
Total assets	**180,023**	125,846
Liabilities		
Commissions payable to pension funds	(83)	(414)
Other liabilities	(8)	(9)
Net assets available for pension benefits	**179,932**	125,423

Statement of Changes in Net Assets Available for Pension Benefits

During the year ended 31 December changes in net assets available for pension benefits comprise:

	2008	*2007*
Net income	11,784	11,282
Additions:		
- Obligatory contributions	30,715	23,374
- Voluntary contributions	2	1
- Transfers between funds, net	14,945	9,721
- Penalties for delay	213	316
	45,875	33,412
Benefits paid to participants		
- Retirement	(1,712)	(684)
- Death or disability	(603)	(368)
- Expatriation	(638)	(319)
- Withholding taxes	(185)	(111)
- Other	(12)	(3)
	(3,150)	(1,485)
Net change in assets available for pension benefits	54,509	43,209
Net assets available for pension benefits, beginning	125,423	82,214
Net assets available for pension benefits, ending	179,932	125,423

(Millions of Kazakhstani Tenge)

24. Fees and commissions

Net fee and commission income for the years ended 31 December was made from the following sources:

	2008	*2007*
Letters of credit and guarantees issued	9,893	9,569
Settlement and cash operations	7,633	7,925
Transfer operations	5,193	4,388
Asset management fees	3,161	2,463
Foreign currency trading	2,898	2,639
Brokerage services	479	693
Other	1,077	812
Fee and commission income	30,334	28,489
Transfer operations	(542)	(404)
Brokerage services	(211)	(259)
Foreign currency trading	(52)	(91)
Custodian services	(49)	(45)
Other	(325)	(258)
Fee and commission expense	(1,179)	(1,057)
Net fee and commission income	29,155	27,432

25. Net trading (loss) / income

Net trading (loss)/ income for the years ended 31 December comprised the following:

	2008	*2007*
Securities	(6,381)	4,651
Interest rate instruments	(23,388)	(2,148)
	(29,769)	2,503

Securities income includes the effect of buying and selling, and changes in the fair value of financial assets at fair value through profit or loss and effect of buying and selling of available-for-sale investment securities as well as changes in fair value of forward transactions with securities. The results of trading and changes in fair value of interest rate swaps are recorded under income from interest rate instruments.

(Millions of Kazakhstani Tenge)

26. Salaries and other administrative and operating expenses

Salaries and other employee benefits and administrative and other operating expenses comprise:

	2008	*2007*
Salaries and bonuses	**(23,722)**	(22,358)
Social security costs	**(2,010)**	(2,436)
Other payments	**(865)**	(950)
Salaries and other employee benefits	**(26,597)**	(25,744)
Occupancy and rent	**(7,056)**	(4,797)
Marketing and advertising	**(3,984)**	(3,193)
Repair and maintenance of property and equipment	**(2,548)**	(1,750)
Transportation expenses	**(2,077)**	(1,411)
Communications	**(1,639)**	(1,522)
Security	**(1,572)**	(1,117)
Legal services and consultancy	**(1,499)**	(1,307)
Agency services	**(1,047)**	(1,035)
Business travel and related expenses	**(1,041)**	(1,033)
Encashment	**(909)**	(752)
Plastic cards	**(767)**	(786)
Office supplies	**(445)**	(358)
Penalties	**(427)**	(59)
Data processing	**(346)**	(298)
State duties and customs	**(294)**	(75)
Postal charges	**(191)**	(161)
Trainings	**(100)**	(117)
Representation	**(99)**	(80)
Insurance	**(59)**	(2,891)
Participation in forums, seminars and conferences	**(43)**	(54)
Loss on disposals of property and equipment	**(12)**	–
Other	**(1,259)**	(604)
Administrative and other operating expenses	**(27,414)**	(23,400)

27. Earnings per share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. The Bank did not declare or pay any dividends to common shareholders during 2008 and 2007.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended 31 December:

	2008	*2007*
Net (loss) / income attributable to common shareholders for basic earnings per share, being net income less dividends declared on convertible preferred shares	**(1,187,584)**	61,354
Net (loss) / income attributable to common and potential common shareholders for diluted earnings per share	**(1,187,584)**	61,354
Weighted average number of common shares for basic and diluted earnings per share	**8,370,461**	7,534,395
Basic and diluted (loss)/earnings per share (in Kazakhstani Tenge)	**(141,878)**	8,143

28. Risk management policies

Introduction

The Group as a combination of financial organizations is exposed to certain types of risks.

Risk management structure is arranged for prompt identification and assessment of risks associated with one or another line of activity. Management understands the high importance of risk management process as an integral part of day-to-day activities of the Group.

Of particular priority is liquidity risk, credit risk, market risk, the latter being subdivided into trading and non-trading risks and operating risks that could affect the equity and income of the Group.

Risk management structure

The Board of Directors

The risk management process is directly subordinated to and accountable to the Board of Directors. The Board of Directors is responsible for the overall risk management approach and for approving the risk management policies and adoption strategic decisions on risk management.

Risk Committee

The Risk Committee oversees the Group's activities on risk management, adopts managerial decisions as related to approval of normative documents and defining lines of activity of subdivisions.

Risk Management Unit

Risk management units are responsible for identification, assessment and monitoring of risks. Daily activities of these units are governed by internal regulations. Within the Group certain units responsible for management of credit, operating, liquidity and market risks are defined. These units are accountable to Risk Committee and Management Board.

Risk monitoring

Risk Monitoring Units control over compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Internal audit function

Internal audit is the most important component of internal control, including risk control. Internal audit function regularly examines adequacy of the internal procedures of the Group. The results are submitted to the Board of Directors, the latter adopts relevant decisions to eliminate shortages.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

28. Risk management policies (continued)

Introduction (continued)

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has Credit committees, which are responsible for credit risk management and which set limits on borrowers and on loan portfolio. Regional credit committee is responsible for credit risk function over issuance of the loans to Russian Federation and other CIS countries.

Financing of borrowers is done by thorough procedures of primary selection of borrowers, preliminary structuring of transaction, project assessment, borrower's financial statement analysis and monitoring and control of risks. Decision on financing of borrowers is made by the respective Credit committee depending on the borrower's limit.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions based on the requirements of kazakhstani regulation Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

During 2008, regional credit committee was chaired by the former Chairman of the Board of Directors. This created a conflict of interest, as the regional credit committee reports to the Managing Board, which in its turn reports to the Board of Directors. Therefore, the control from Managing Board was not effective and potentially contributed to the issuance of loans to off-shore companies, which became uncollectible in 2008 and for which the Bank has created an allowance as at 31 December 2008. (Refer to Notes 5 and 13). In 2009 the structure of credit committee was improved by the decision of the new management.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit, which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the contracts. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Note	*Gross maximum exposure 2008*	*Gross maximum exposure 2007*
Cash and cash equivalents (excluding cash on hand)	7	82,645	86,897
Obligatory reserves (excluding cash on hand)	8	27,601	139,366
Financial assets at fair value through profit or loss (excluding equity securities)	9	106,519	83,022
Amounts due from credit institutions	10	85,174	107,589
Derivative financial assets	11	21,650	31,397
Available-for-sale investment securities (excluding equity securities)	12	19,122	20,865
Loans to customers	13	1,617,063	2,379,810
Other assets		23,000	18,854
		1,982,774	2,867,800
Financial commitments and contingencies	23	551,253	592,796
Total credit risk exposure		2,534,027	3,460,596

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 13.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Group's credit rating system.

		2008		
	Note	*Neither past due nor impaired*	*Past due or individually impaired*	*Total*
Loans to customers	13			
Corporate lending		702,587	1,369,404	2,071,991
Small and medium business lending		234,748	22,085	256,833
Individuals lending		468,695	36,822	505,517
Total		1,406,030	1,428,311	2,834,341

		2007		
	Note	*Neither past due nor impaired*	*Past due or individually impaired*	*Total*
Loans to customers	13			
Corporate lending		1,396,467	273,181	1,669,648
Small and medium business lending		278,461	21,864	300,325
Individuals lending		541,511	5,369	546,880
Total		2,216,439	300,414	2,516,853

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Past due loans to customers include those that are only past due by a few days. An analysis of past due but not impaired loans, by age, is provided below.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans per class of financial assets

	Less than 30 days	
	2008	*2007*
Loans to customers		
Corporate lending	13,507	8,288
Small and medium business lending	6,448	2,996
Individuals lending	10,976	5,369
Total	30,931	16,653

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2008 was KZT 83,629 million (2007- KZT 36,068 million). See 'Collateral and other credit enhancements' in Note 13 for the details of types of collateral held.

See Note 13 for more detailed information with respect to the allowance for impairment of loans to customers.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2008	*2007*
Loans to customers		
Corporate lending	234,372	60,437
Small and medium business lending	5,202	3,340
Individuals lending	1,982	488
	241,556	64,265
Amounts due from credit institutions	1,922	–
Total	243,478	64,265

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. Note 5 and Note 13 explain in detail for effects of such circumstances

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of Group's monetary assets and liabilities is set out below:

	2008			
	Kazakhstan	*OECD*	*CIS and other non OECD countries*	*Total*
Assets:				
Cash and cash equivalents	25,510	42,107	20,276	87,893
Obligatory reserves	62,953	–	1,101	64,054
Financial assets at fair value through profit or loss	115,320	12,830	–	128,150
Amounts due from credit institutions	23,277	–	61,897	85,174
Derivative financial assets	445	20,937	268	21,650
Available-for-sale securities	15,272	2	5,208	20,482
Loans to customers	915,099	253,163	448,801	1,617,063
Other assets (monetary)	18,794	1,093	3,113	23,000
	1,176,670	330,132	540,664	2,047,466
Liabilities:				
Amounts due to the Government and central banks	1,472	–	246	1,718
Amounts due to credit institutions	152,328	588,622	62,416	803,366
Amounts due to customers	859,216	15,512	11,324	886,052
Derivative financial liabilities	2,375	16,391	23	18,789
Debt securities issued	216,850	858,302	12,574	1,087,726
Provisions	2,347	28,491	74,055	104,893
Other liabilities	22,784	1,163	10,489	34,436
	1,257,372	1,508,481	171,127	2,936,980
Net balance sheet position	(80,702)	(1,178,349)	369,537	(889,514)
Off-balance sheet position	388,567	87,103	212,685	688,355

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

	2007			
	Kazakhstan	*OECD*	*CIS and other non OECD countries*	*Total*
Assets:				
Cash and cash equivalents	48,560	42,473	8,690	99,723
Obligatory reserves	166,048	–	2,194	168,242
Financial assets at fair value through profit or loss	97,989	14,186	–	112,175
Amounts due from credit institutions	33,168	–	74,421	107,589
Derivative financial assets	6,391	18,085	6,921	31,397
Available-for-sale securities	15,996	3,700	6,726	26,422
Loans to customers	1,501,465	118,048	760,297	2,379,810
Other assets	16,018	1,231	1,605	18,854
	1,885,635	197,723	860,854	2,944,212
Liabilities:				
Amounts due to the Government and central banks	627	–	286	913
Amounts due to credit institutions	150,953	628,449	55,902	835,304
Amounts due to customers	641,094	–	11,414	652,508
Derivative financial liabilities	395	3,735	1,398	5,528
Debt securities issued	189,193	880,229	15,023	1,084,445
Provisions	2,598	1,772	6,207	10,577
Other liabilities	22,539	658	114	23,311
	1,007,399	1,514,843	90,344	2,612,586
Net balance sheet position	878,236	(1,317,120)	770,510	331,626
Off-balance sheet position	379,068	59,560	195,000	633,628

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its obligations when due. Liquidity risk management is one of the main directions in the Group's risk management process. When managing the liquidity risk the Group follows two main directions:

1. conformity with the liquidity norms established by the regulatory bodies; and
2. liquidity management by means of the "financial pool method" and "fund conversion method".

Under the "financial pool method" the Group's monetary assets are considered as one pool, which are split to the primary and the secondary sources for liquidity purposes. The primary source consists of cash and balances on correspondent accounts, and the secondary source consists of highly liquid assets, which have high turnover and readily available for sale. The primary and the secondary sources are considered as not profit bearing and profit bearing, respectively.

"Fund conversion method" is the distribution of all financing sources depending on the accounts' turnover and reserve requirement for financing of the related assets.

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

Liquidity risk and funding management (continued)

The management of the Asset and Liability Management Committee (ALMC) analyzes the operational data on a weekly basis and makes decisions concerning liquidity management. Frequency of the ALMC meetings may vary depending on the situation. ALMC considers the following issues: GAP analysis of the assets and liabilities broken down by maturity and currencies, duration of assets and liabilities and analysis of future cash flows. All business functions and risk management departments are involved in the process of the Group's liquidity management to provide the information support.

The Management regularly monitors high-liquid assets that may be disposed at any time. The Bank builds portfolio consisting of high-liquid assets, predominantly debt financial instruments issued by the states with high credit ratings. In addition, the Bank keeps obligatory reserves in the National Bank of Kazakhstan in the amount of 3% of certain external borrowings and 2% of the certain domestic borrowings.

As discussed in Note 2, as at 31 December 2008, the amount drawn by the Group under bond programs and loan facilities amounted to KZT 1,891,092 million. In accordance with the contractual terms of certain bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

The Bank was in breach of these capital adequacy and lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

Due to the Bank's inability to early repay all its debt as called by creditors, the Bank may not be able to meet all its obligations. Subsequent to 31 December 2008, certain lenders have requested repayment of debts amounting to USD 550 million or equivalent of KZT 83 billion citing default and/or acceleration clauses. If those lenders continue to exercise and other lenders seek to exercise rights under acceleration and default clauses, the Bank may not be able to meet its obligations.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder and the management considers that the restructuring of the above facilities will be completed in 2009.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on undiscounted repayment obligations.

Financial liabilities as at 31 December 2008	*Within one year*	*More than one year*	*Total*
Amounts due to the Government and central banks	217	1,902	2,119
Amounts due to credit institutions	698,139	127,258	825,397
Derivative financial instruments	16,689	2,100	18,789
Amounts due to customers	680,055	300,393	980,448
Debt securities issued	769,514	637,713	1,407,227
Other liabilities	34,957	1,306	36,263
Total undiscounted financial liabilities	2,199,571	1,070,672	3,270,243

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations

Financial liabilities as at 31 December 2007	*Within one year*	*More than one year*	*Total*
Amounts due to the Government and central banks	130	884	1,014
Amounts due to credit institutions	384,784	559,105	943,889
Derivative financial instruments	3,130	2,398	5,528
Amounts due to customers	489,668	225,075	714,743
Debt securities issued	164,010	1,473,570	1,637,580
Other liabilities	32,999	5,398	38,397
Total undiscounted financial liabilities	1,074,721	2,266,430	3,341,151

As discussed in Note 2, there has been a significant deterioration in the Group's financial position principally resulting from the loss events related with the loan portfolio described in Note 5. This has lead to a breach, by the Bank and the Group, of certain prudential requirements including those related to capital adequacy set by the FMSA. As a result of these loss events the Group's total liabilities as at 31 December 2008 exceeded its total assets by KZT 742,779 million and the Group has reported a net loss amounting to KZT 1,188,050 million for the year then ended.

As at 31 December 2008, the amount drawn by the Group under bond programs and loan facilities amounted to KZT 1,891,092 million. In accordance with the contractual terms of certain bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

The Bank was in breach of these capital adequacy and lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

Subsequent to 31 December 2008, certain lenders have requested repayment of debts amounting to USD 550 million citing default and/or acceleration clauses. If those lenders continue to exercise and other lenders seek to exercise rights under acceleration and default clauses, the Bank may not be able to meet its obligations. Therefore, the Bank started restructuring process with its creditors.

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	On demand	*Less than month*	*1 to 3 months*	*3 to 12 months*	*1 to 3 years*	*Over 3 years*	*Total*
2008	**14,694**	**21,095**	**39,854**	**192,546**	**249,788**	**160,233**	**678,210**
2007	17,775	16,478	28,756	146,621	250,623	166,493	626,746

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

Liquidity risk and funding management (continued)

In accordance with terms of debt securities issued the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major rating agencies.

Losses on loans, derivative financial instruments and securities, existed in 2008 and identified in 2009 by the current management resulted in the following breaches.

As at 31 December 2008, the Bank was in breach of capital adequacy, lending exposure and cross-default covenants on certain debt securities issued. Due to breach of covenants described above, amounts due to credit institutions and debt securities issued of KZT 1,185,395 million have become current. As discussed in Note 2, the Bank is in the process of restructuring these debts.

The table below summarises an analysis of assets and liabilities according to when they are expected to be recovered or settled at 31 December 2008.

	2008		
	Withinone year	*More than one year*	*Total*
Assets:			
Cash and cash equivalents	87,893	–	87,893
Obligatory reserves	24,173	39,881	64,054
Financial assets at fair value through profit or loss	128,150	–	128,150
Amounts due from credit institutions	71,925	13,249	85,174
Derivative financial assets	655	20,995	21,650
Available-for-sale Securities	3,810	16,672	20,482
Loans to customers	851,289	765,774	1,617,063
Other assets	15,994	7,006	23,000
	1,183,889	863,577	2,047,466
Liabilities:			
Amounts due to the Government and central banks	125	1,593	1,718
Amounts due to credit institutions	708,182	95,184	803,366
Derivative financial liabilities	16,689	2,100	18,789
Amounts due to customers	536,302	349,750	886,052
Debt securities issued	722,510	365,216	1,087,726
Provisions	54,294	50,599	104,893
Other liabilities	33,930	506	34,436
	2,072,032	864,948	2,936,980
Net position	(888,143)	(1,371)	(889,514)
Accumulated gap	(888,143)	(889,514)	

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

Liquidity risk and funding management (continued)

	2007		
	Within one year	*More than one year*	*Total*
Assets:			
Cash and cash equivalents	99,723	–	99,723
Obligatory reserves	52,266	115,976	168,242
Financial assets at fair value through profit or loss	112,175	–	112,175
Amounts due from credit institutions	59,091	48,498	107,589
Derivative financial assets	375	31,022	31,397
Available-for-sale Securities	8,211	18,211	26,422
Loans to customers	558,562	1,821,248	2,379,810
Other assets	16,299	2,555	18,854
	906,702	2,037,510	2,944,212
Liabilities:			
Amounts due to the Government and central banks	95	818	913
Amounts due to credit institutions	255,600	579,704	835,304
Derivative financial liabilities	1,908	3,620	5,528
Amounts due to customers	459,803	192,705	652,508
Debt securities issued	66,912	1,017,533	1,084,445
Provisions	5,276	5,301	10,577
Other liabilities	22,016	1,295	23,311
	811,610	1,800,976	2,612,586
Net position	95,092	236,534	331,626
Accumulated gap	95,092	331,626	

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the trading and non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity of Group's income statement to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2008. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2008 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

Market risk (continued)

Interest rate risk (continued)

Currency	Increase in basis points 2008	Sensitivity of net interest income 2008	Sensitivity of equity 2008
LIBOR:			
USD	+59	(2,372)	(711)
KZT	+59	(1,699)	(217)
EUR	+59	(1,080)	–
CHF	+59	(177)	–
JPY	+59	(804)	–

Currency	Increase in basis points 2007	Sensitivity of net interest income 2007	Sensitivity of equity 2007
LIBOR:			
USD	+46	(1,570)	(1)
KZT	+46	(719)	(168)
EUR	+46	(427)	–
CHF	+46	(90)	–
JPY	+46	(806)	–

As at 31 December the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follow:

	2008 KZT	2008 Foreign currency	2007 KZT	2007 Foreign currency
Financial assets at fair value through profit or loss	8.1%	5.1%	6.6%	5.9%
Amounts due from credit institutions	9.7%	7.8%	7.6%	10.1%
Available-for-sale securities	11.1%	3.1%	11.2%	3.7%
Loans to customers	17.8%	12.1%	17.8%	13.0%
Amounts due to the Government and central banks	4.1%	3.5%	5.8%	4.3%
Amounts due to credit institutions	7.9%	6.2%	8.4%	7.1%
Amounts due to customers	10.1%	7.4%	8.8%	6.3%
Debt securities issued	11.6%	8.0%	9.8%	9.2%

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Risk Committee has set limits on positions by currency based on the FMSA regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2008 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2008	Effect on profit before tax 2008	Change in currency rate in % 2007	Effect on profit before tax 2007
USD	-15.4	(71,743)	-4	(5,591)
EUR	-15.2	6,143	-7	1,044
RUR	-8.3	1,081	-5	(1,681)
CHF	-16.4	(218)	-8	1,609
JPY	-22.4	(1,474)	-9	831
KGS	-15.0	(669)	–	–
BYR	-3.6	(39)	–	–
PLZ	–	–	-10	792
GBP	-23.2	(221)	-8	3,476

BTA - Financial indebtedness

	in nominal	in nominal	in nominal	in nominal	in nominal
[redacted]					

[illegible] 000

(Millions of Kazakhstani Tenge)

28. Risk management policies (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

29. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2008	*Fair value2008*	*Unrecognised gain/(loss) 2008*	*Carrying value 2007*	*Fair value 2007*	*Unrecognised gain/(loss) 2007*
Financial assets						
Cash and cash equivalents	87,893	87,893	–	99,723	99,723	–
Obligatory reserves	64,054	64,054	–	168,242	168,242	–
Financial assets at fair value through profit or loss	128,150	128,150	–	112,175	112,175	–
Amounts due from credit institutions	85,174	85,174	–	107,589	107,589	–
Derivative financial assets	21,650	21,650	–	31,397	31,397	–
Loans to customers	1,617,063	1,617,063	–	2,379,810	2,385,763	5,953
Available-for-sale investment securities	20,482	20,482	–	26,422	26,422	–
Financial liabilities						
Amounts due to the Government and central banks	1,718	1,718		913	913	–
Amounts due to credit institutions	803,366	794,637	8,729	835,304	848,660	(13,356)
Derivative financial liabilities	18,789	18,789	–	5,528	5,528	–
Amounts due to customers	886,052	886,052	–	652,508	652,508	–
Debt securities issued	1,087,726	727,839	359,887	1,084,445	1,016,976	67,469
Total unrecognised change in unrealised fair value			368,616			60,066

29. Fair values of financial instruments (continued)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

30. Segment analysis

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business segments. The Group is organised on a basis of four main business segments:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and cash and foreign currency related services.

Corporate banking – representing other than small and medium size legal entities direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

Small and medium business – representing individual entrepreneurs and small enterprises current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

Investment activity - representing financial assets and liabilities used for trading or investment purposes, financing, and merger and acquisitions transaction support.

(Millions of Kazakhstani Tenge)

30. Segment analysis (continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2008 and 2007 is set out below:

2008	*Corporate banking*	*Small and medium business*	*Retail banking*	*Investing activity*	*Unallocated amounts*	*Elimination*	*Total*
External interest income	236,914	39,874	78,033	41,682	(36)	–	396,467
Internal interest income	52,093	9,649	36,964	244,688	–	(343,394)	–
External interest expense	(20,811)	(4,792)	(36,524)	(146,143)	(111)	–	(208,381)
Internal interest expense	(200,542)	(23,846)	(44,474)	(74,532)	–	343,394	–
Net interest income before impairment	67,654	20,885	33,999	65,695	(147)	–	188,086
Impairment charge	(1,003,422)	(42,364)	(48,071)	(443)	–	–	(1,094,300)
Net interest (loss)/income after impairment	(935,768)	(21,479)	(14,072)	65,252	(147)	–	(906,214)
Net commission and non-interest income	23,256	10,823	4,672	(49,857)	245	(7,898)	(18,759)
Depreciation and amortizations	(487)	(432)	(1,212)	(106)	(2,198)	–	(4,435)
Non-interest expenses	(26,247)	(12,088)	(20,808)	(7,113)	(1,918)	7,898	(60,276)
Other provisions	(96,429)	(143)	(149)	(16,331)	(78)	–	(113,130)
Share in net loss of associate organizations	–	–	–	(15,448)	–	–	(15,448)
Impairment loss of available-for-sale securities	–	–	–	(42,610)	–	–	(42,610)
Impairment of investments in associates	–	–	–	(19,138)	–	–	(19,138)
Impairment loss on goodwill	–	–	–	(8,107)	–	–	(8,107)
Loss before income tax expense	(1,035,675)	(23,319)	(31,569)	(93,458)	(4,096)	–	(1,188,117)
Income tax benefit	–	–	–	–	67	–	67
Loss after income tax	(1,035,675)	(23,319)	(31,569)	(93,458)	(4,029)	–	(1,188,050)
Total assets	1,063,977	213,297	437,161	1,391,441	312,200	(1,223,875)	2,194,201
Total liabilities	701,257	152,140	372,745	2,758,664	26,250	(1,074,076)	2,936,980

(Millions of Kazakhstani Tenge)

30. Segment analysis (continued)

2007	*Corporate Banking*	*Small and medium business*	*Retail banking*	*Investing activity*	*Unallocated amounts*	*Elimination*	*Total*
External interest income	170,830	38,679	81,803	32,190	(54)	–	323,448
Internal interest income	22,470	5,709	28,186	214,547	–	(270,912)	–
External interest expense	(14,604)	(3,829)	(28,996)	(131,850)	–	–	(179,279)
Internal interest expense	(132,014)	(19,957)	(37,748)	(81,193)	–	270,912	–
Net interest income before impairment	46,682	20,602	43,245	33,694	(54)	–	144,169
Impairment charge	(52,722)	(5,623)	(9,431)	(12)	(22)	–	(67,810)
Net interest (loss)/income after impairment	(6,040)	14,979	33,814	33,682	(76)	–	76,359
Net commission and non-interest income	35,049	9,100	5,149	14,986	4,386	(13,333)	55,337
Depreciation and amortization	(101)	(210)	(732)	(280)	(991)	–	(2,314)
Non-interest expenses	(20,164)	(9,649)	(27,765)	(7,773)	(2,356)	13,333	(54,374)
Other provisions	(4,495)	123	(25)	–	(308)	–	(4,705)
Income from associate organizations	–	–	–	4,234	–	–	4,234
Income before income tax expense	4,249	14,343	10,441	44,849	655	–	74,537
Income tax expense	–	–	–	–	(9,832)	–	(9,832)
Net income after income tax	4,249	14,343	10,441	44,849	(9,177)	–	64,705
Total assets	1,642,359	295,840	526,287	1,526,106	245,376	(1,171,351)	3,064,617
Total liabilities	329,158	140,980	346,719	2,836,257	10,841	(1,051,369)	2,612,586

(Millions of Kazakhstani Tenge)

30. Segment analysis (continued)

Geographical segments. Segment information for the main geographical segments of the Group for the years ended 31 December 2008 and 2007 is set out below:

	Kazakhstan	*OECD*	*Non OECD*	*Total*
2008				
Segment assets	1,970,957	595,956	941,896	3,508,809
External revenues	463,275	204,351	263,069	930,695
Capital expenditure	6,734	–	335	7,069
Credit related commitments	253,790	44,456	65,244	363,490
2007				
Segment assets	2,003,504	208,669	976,537	3,188,710
External revenues	242,667	109,810	158,402	510,879
Capital expenditure	14,202	–	1,653	15,855
Credit related commitments	256,166	20,476	57,529	334,171

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

31. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties, except those, who are subject to the restriction of the legislation, may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(Millions of Kazakhstani Tenge)

31. Related party transactions (continued)

As at 31 December 2008 and 2007 the Group had the following transactions with related parties:

	31 December 2008				31 December 2007			
	Shareholders	*Associates*	*Key management personnel*	*Other related parties*	*Shareholders*	*Associates*	*Key management personnel*	*Other related parties*
Loans outstanding at 1 January, gross	–	–	8,210	1,352	–	–	8,683	6,510
Loans issued during the period	–	–	1,439	2	–	–	7,742	5,790
Loan repayments during the period	–	–	(8,354)	(1,347)	–	–	(8,215)	(10,948)
Loans outstanding at 31 December, gross	–	–	1,295	7	–	–	8,210	1,352
Less: allowance for impairment at 31 December	–	–	–	–	–	–	–	–
Loans outstanding at 31 December, net	–	–	1,295	7	–	–	8,210	1,352
Interest rates	–	–	12%-19%	15%-19%	–	–	12%-16%	12%-19%
Maturities	–	–	2010-2016	2010-2014	–	–	2009-2027	2008-2026
Amounts due from credit institutions (deposits)								
Deposits at 1 January	–	5,096	–	5,582	–	2,246	–	6,570
Deposits placed during the period	–	24,842	–	–	–	8,307	–	19,887
Deposits withdrawn during the period	–	(23,579)	–	(5,582)	–	(5,457)	–	(20,875)
Deposits at 31 December	–	6,359	–	–	–	5,096	–	5,582
Interest rates	–	12%-14%	–	11%-14%	–	9%-15%	–	11%-14%
Maturity	–	2009	–	2008	–	2008-2009	–	2008
Amounts due from credit institutions (loans)								
Loans at 1 January	–	9,497	–	8,398	–	12,625	–	3,190
Loans placed during the period	–	26,394	–	–	–	17,892	–	9,374
Loans withdrawn during the period	–	(28,562)	–	(8,398)	–	(21,020)	–	(4,166)
Loans at 31 December	–	7,329	–	–	–	9,497	–	8,398
Less: allowance for impairment at 31 December	–	(3,683)	–	–	–	–	–	–
Loans at 31 December	–	3,646	–	–	–	9,497	–	8,398
Interest rates	–	7%-15%	–	8%-11%	–	8%-13%	–	8%-11%
Maturity	–	2009-2013	–	2008-2013	–	2008-2013	–	2008-2013

(Millions of Kazakhstani Tenge)

31. Related party transactions (continued)

	31 December 2008				31 December 2007			
	Shareholders	*Associates*	*Key management personnel*	*Other related parties*	*Shareholders*	*Associates*	*Key management personnel*	*Other related parties*
Amounts due to credit institutions								
Loans at 1 January	–	430	–	558	–	3,529	–	17,481
Loans received during the period	–	494,489	–	–	–	79,809	–	329,572
Loans repaid during the period	–	(488,036)	–	(558)	–	(82,908)	–	(346,495)
Loans at 31 December	–	6,883	–	–	–	430	–	558
Interest rates	–	up to 11%	–	–	–	up to 10%	–	–
Maturity	–	On demand-2009	–	On demand	–	2008	–	On demand
Financial assets at fair value through profit or loss								
Balances at 1 January	–	1,619		–	–	1,620	–	
Securities purchased during the period	–	416		–	–	336	–	–
Securities sold during the period	–	(2,035)		–	–	(337)	–	–
Balances at 31 December	–	–		–	–	1,619	–	–
Interest rates	–	9%		–	–	9%	–	–
Maturity	–	2008		–	–	2008	–	–
Cash and cash equivalents								
Deposits at 1 January	–	1		1,281	–	128	–	617
Deposits received during the period	–	859,637		–	–	48,639	–	358,894
Deposits repaid during the period	–	(858,943)		(1,281)	–	(48,766)	–	(358,230)
Deposits at 31 December	–	695		–	–	1	–	1,281
Less: allowance for impairment at 31 December	–	(28)		–	–	–	–	–
Deposits at 31 December, net of impairment	–	667		–	–	1	–	1,281
Interest rates	–	1%-12%		–	–	–	–	–
Maturity	–	On demand-2009		On demand	–	On demand	–	On demand

(Millions of Kazakhstani Tenge)

31. Related party transactions (continued)

	31 December 2008				*31 December 2007*			
	Shareholders	*Associates*	*Key management personnel*	*Other related parties*	*Shareholders*	*Associates*	*Key management personnel*	*Other related parties*
Amounts due to customers								
Deposits at 1 January	18	–	4,151	4,796	4,583	–	982	500
Deposits received during the period	668	–	48,083	1,379	55,158	–	78,375	18,901
Deposits repaid during the period	(680)	–	(51,529)	(3,888)	(59,723)	–	(75,206)	(14,605)
Deposits at 31 December	6	–	705	287	18	–	4,151	4,796
Interest rates	–	–	9%-13%	9%-10%	–	–	up to 12%	10%
Maturity	On demand	–	2009-2011	2009-2011	On demand	–	2008-2012	2008
Commitments and guarantees issued	–	9,145	3	–	–	3,796	17	8,557
Less: allowance for impairment	–	(7,741)	–	–	–	–	–	–
	–	1,404	3	–	–	3,796	17	8,557
Interest rates	–	2%-3%	–	–	–	2%-7%	–	2%-3%
Maturity	–	2009-2010	2009-2010	–	–	2008-2009	2008-2010	2008-2011
Commitments and guarantees received	–	3,105	–	–	–	503	8	1,456
Interest rates	–	2%	–	–	–	3%	–	2%-3%
Maturity	–	2009	–	–	–	2008	2011	2008
Interest income on loans	–	–	553	2	–	–	1,614	666
Interest income on due from credit institutions	–	1,319	–	1,721	–	1,284	–	1,127
Interest expense on due to credit institutions	–	(189)	–	(17)	–	(57)	–	(8)
Interest expense on due to customers	–		(113)	(34)	–	–	(255)	(2)
Interest income on financial assets	–	147	–	–	–	147	–	–
Interest income on deposits up to 90 days	–	64	–	9	–	16	–	2
Allowance for impairment	–	(11,452)	–	–	–	–	–	–
Fee and commission income	–	163	1	68	–	46	–	34
Other income	–	28	1	–	–	40	–	–
Fee and commission expense	–	(76)	–	–	–	–	–	(245)
Other expense	–	(51)	–	–	–	–	–	–
	–							

(Millions of Kazakhstani Tenge)

31. Related party transactions (continued)

As at 31 December the Group had the following transactions with related parties:

The aggregate remuneration and other benefits paid to members of the Management Board and Board of Directors for 2008 was KZT 624 million (2007 - KZT 610 million).

As at 31 December 2008 the Bank had loans totaling to KZT 807 million issued to the Group management for investment to mutual investment funds, managed by a subsidiary of the Group (2007 - KZT 4,381 million), the rest of loans are presented by consumer loans.

Included in the table above are the following transactions with related parties outstanding as at 31 December 2008 and 2007:

- Operations with associates such as: loans - including provisioning matters, due from credit institutions (loans issued and deposits placed) with the Group and guarantees and letters of credit to investees, and mutual investments.
- Shareholders: loans - including provisioning matters, deposits placed with the Group.
- Members of Board of Directors: loans - including provisioning matters, deposits attracted with the Group, total remuneration paid during the period.

32. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the FMSA in supervising the Bank.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

As at 31 December 2008, the amount drawn by the Group under bond programs and loan facilities amounted to KZT 1,891,092 million. In accordance with the contractual terms of certain bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

The Bank was in breach of these capital adequacy and lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

Due to the Bank's inability to repay all its debt as called by creditors in full, the Bank may not be able to meet all its obligations. Subsequent to 31 December 2008, certain lenders have requested repayment of debts amounting to USD 550 million citing default and/or acceleration clauses. If those lenders continue to exercise and other lenders seek to exercise rights under acceleration and default clauses, the Bank may not be able to meet its obligations.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder and the management considers that the restructuring of the above facilities will be completed in 2009.

(Millions of Kazakhstani Tenge)

33. Subsequent events

On 23 January 2009 the Bank has repaid, at maturity, its notes for the total amount of USD 250,000 thousand, issued under the Bank's Global Medium Term Notes Program.

On 2 February 2009 in accordance with the Law of the Republic of Kazakhstan on Banks and banking activity the FMSA has made an offer to the Government and the Government represented by JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna") agreed to purchase the controlling stake in the Bank's capital. The purchase was carried out through issue of additional 25,246,343 shares at the price of KZT 8,401 per share, for the total amount of KZT 212,095 million, which provided the Government with 75.1% interest in the Bank's capital.

On 4 February 2009 the Kazakh Tenge devalued against US Dollars and other major currencies. The exchange rates for USD 1 before and after devaluation were KZT 120 and KZT 150, respectively. Should the devaluation happen as at 31 December 2008, its effect on the Group's consolidated income statement would be KZT 68,543 million less.

In February 2009, in order to support the Bank's liquidity, the Government decided to transfer some of the state owned entities' accounts to the Bank. This provided the Bank with additional funds for the total amount of KZT 129,690 million.

In March 2009, the Bank repaid, at maturity, its bilateral loan to Morgan Stanley for the total amount of KZT 46,620 million. On 10 March 2009 the Bank has also repaid USD 193,366,666.67 in accordance with the schedule part of the Global Syndicated Loan Facility.

On 3 March 2009 the National Bank of the Republic of Kazakhstan has decreased the obligatory reserve requirements for commercial banks from 2% to 1.5% on internal obligations and from 3% to 2.5% on external obligations.

During March 2009, the Bank has made several placements of its notes at local market for the total amount of KZT 645 billion, with final maturity of 2024 and with repayments starting from 2015. All of these notes were purchased by Samruk-Kazyna.

On 14 February 2009 the Bank has signed a general agreement with Samruk-Kazyna and "DAMU Fund for development of entrepreneurship", on providing the Bank with funds in the amount of KZT 22 billion for the purposes of financing and refinancing of small and medium size entities under the Government's anti-crisis program, for the period of seven years.

In March 2009 the Group acquired 33,978,708 shares in its associate Sekerbank for amount of KZT 2,996 million from an additional share issue and to maintain its current share interest of 33.98%.

In February 2009 rating agencies have downgraded ratings of the Bank's notes issued under the Diversified payment rights program from Baa3 to B1, which lead to a breach of the covenants of the notes.

On 20 April 2009 certain lenders demanded from the Bank accelerated repayment of the Bank's debt due to these creditors for the total amount of USD 550 million, based on a breach of financial and non-financial covenants of the Bank's debt agreements, as a result of change in control by Samruk-Kazyna and as a result of downgrade of the Bank's ratings in 2009. Since the Bank's debt agreements with other creditors have a cross-default clauses, in order to avoid acceleration claims by other creditors, the management of the Bank has decided to suspend repayments of principal amounts of all of its debt, starting from 20 April 2009, until such time that the Bank finalizes its negotiations with all the creditors on restructuring of the Bank's debt. The Bank has also announced that it will continue interest payments on its debts.

For the period from January to April 2009 international ratings agencies have downgraded in stages, the Bank's short and long-term counterparty credit ratings, as follows: Standard&Poor's from BB to D; Fitch from BB to RD, Moody's from Ba1 to Caa3. This has lead to breach of some of financial and non-financial covenants of the Bank's debt agreements, as described in Note 2.

JSC "BTA Bank" and subsidiaries

Unaudited interim condensed consolidated financial statements

30 September 2009

Together with the Report on review of interim condensed consolidated financial statements

ERNST & YOUNG

Ernst & Young LLP
Esentai Tower
Al-Farabi Ave., 77/7
Almaty, Kazakhstan
Tel: +7 (727) 258 5960
Fax: +7 (727) 258 5961
www.ey.com/kazakhstan

ТОО «Эрнст энд Янг»
Казахстан, Алматы
пр. Аль-Фараби, 77/7
Здание «Есентай Тауэр»
Тел.: +7 (727) 258 5960
Факс: +7 (727) 258 5961

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of JSC "BTA Bank":

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Joint Stock Company "BTA Bank" and its subsidiaries(the "Group") as of 30 September 2009, comprising of the interim condensed consolidated statement of financial position as of 30 September 2009 and the related interim condensed consolidated income statement and interim condensed consolidated statements of comprehensive income for the nine month period then ended, and the related cash flows and changes in equity for the nine-month period then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of the Group are not prepared, in all material respects, in accordance with IAS 34.

ERNST & YOUNG

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the accompanying financial statements which indicates that the Group incurred a net loss amounting to KZT 1,049,538 million during the nine-month period ended 30 September 2009 and, as of that date, the Group's total liabilities exceeded its total assets by KZT 1,624,019 million. These conditions, along with other matters described in Note 2, including current defaults under debt agreements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Ernst & Young LLP

Zhemaletdinov Evgeny
Auditor / General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

1 February 2010

INTERIM CONDENSED CONSOLIDATED STATEMENT ON FINANCIAL POSITION

AS AT 30 SEPTEMBER 2009

(Millions of Kazakh Tenge)

	Note	30 September 2009 (Unaudited)	31 December 2008
Assets			
Cash and cash equivalents	4	30,153	87,893
Obligatory reserves	5	43,003	64,054
Financial assets at fair value through profit or loss	6	120,648	128,150
Amounts due from credit institutions	7	31,439	85,174
Derivative financial assets	8	31,346	21,650
Available-for-sale investment securities	9	22,244	20,482
Loans to customers	10	1,107,241	1,617,063
Bonds of NWF Samruk-Kazyna	11	511,097	–
Investments in associates		80,372	72,371
Property and equipment		12,252	13,704
Goodwill	12	4,556	37,421
Current income tax asset		5,590	5,505
Deferred tax assets	14	2,030	5,046
Other assets		46,156	35,688
Total assets		2,048,127	2,194,201
Liabilities			
Amounts due to the Government and National Bank	15	407,911	1,718
Amounts due to credit institutions	16	752,636	803,366
Derivative financial liabilities	8	2,308	18,789
Amounts due to customers	17	683,281	886,052
Debt securities issued	18	1,670,588	1,087,726
Provisions	13	120,600	104,893
Other liabilities		34,822	34,436
Total liabilities		3,672,146	2,936,980
Equity	19		
Issued capital: common shares		515,551	303,456
Additional paid-in capital		(38,798)	–
Treasury shares		(6,475)	(1,568)
Available-for-sale investment securities revaluation reserve		(2,868)	(1,112)
Foreign currency translation reserve		(260)	(948)
Accumulated deficit		(2,080,631)	(1,057,646)
Equity attributable to shareholders of the parent		(1,613,481)	(757,818)
Non-controlling interest		(10,538)	15,039
Total equity		(1,624,019)	(742,779)
Total liabilities and equity		2,048,127	2,194,201

Signed and authorized for release on behalf of the Management Board of the Bank

Anvar Saidenov — Chairman of the Board

Alma Maxutova — Chief Accountant

АО «БТА Банк» / «БТА Банкі» АҚ

1 February 2010

The accompanying notes on pages 8 to 48 are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2009

(Millions of Kazakh Tenge)

		Nine-month periods ended 30 September	
	Note	*2009 (Unaudited)*	*2008 (Unaudited)*
Interest income			
Loans		155,971	274,806
Bonds of NWF Samruk-Kazyna		20,502	–
Securities			
Financial assets at fair value through profit or loss		9,677	7,216
Available-for-sale investment securities		1,932	2,201
Deposits with other banks		5,852	13,931
		193,934	298,154
Interest expense			
Debt securities issued		(110,878)	(72,867)
Deposits from customers		(36,949)	(39,687)
Deposits and loans from credit institutions		(48,128)	(47,868)
		(195,955)	(160,422)
Net interest (expense)/income before impairment		(2,021)	137,732
Impairment charge	7, 10	(641,604)	(80,019)
Net interest (expense)/income		(643,625)	57,713
Fee and commission income		15,310	25,640
Fee and commission expense		(1,114)	(914)
Fees and commissions		14,196	24,726
Net trading loss	21	(20,020)	(4,676)
Gains less losses from foreign currencies:			
- dealing		(9,513)	884
- translation differences		(353,377)	2,217
Fair value change of options		19,837	–
Income from insurance operations		8,248	11,030
Expenses from insurance operations		(6,202)	(9,384)
Share of income of associates	3	4,169	4,193
Impairment charge for available-for-sale investment securities		(1,243)	–
Impairment charge for goodwill		(32,885)	–
Gain from purchase of own debt securities	18	9,708	–
Other income		2,294	5,033
Non interest income		(378,984)	9,297
Salaries and other employee benefits	22	(17,000)	(20,029)
Administrative and other operating expenses	22	(16,565)	(19,551)
Depreciation and amortisation		(3,704)	(3,282)
Taxes other than income tax		(2,932)	(2,737)
Obligatory insurance of individuals' deposits		(1,353)	(1,725)
Other provisions	13	6,415	(476)
Other expense		(2,358)	(1,886)
Non interest expense		(37,497)	(49,686)
(Loss) / income before income tax expense		(1,045,910)	42,050
Income tax expenses	14	(3,628)	(6,838)
Net (loss) / income after income tax expenses		(1,049,538)	35,212
Attributable to:			
Equity holders of the parent		(1,022,985)	33,609
Non-controlling interest in net income		(26,553)	1,603
Net (loss) / income		(1,049,538)	35,212
Basic and diluted (loss)/ earnings per share (in Kazakhstani Tenge)	23	(31,039)	4,015

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2009

(Millions of Kazakh Tenge)

	Nine-month periods ended 30 September	
	2009 (unaudited)	*2008 (unaudited)*
Net (loss)/profit for the reporting period	(1,049,538)	35,212
Other comprehensive income:		
Fair value change of available-for-sale securities	(4,735)	833
Release of available-for-sale securities revaluation reserve on disposal of previously revalued assets	1,143	(76)
Impairment of available-for-sale securities	1,243	–
Share of changes recognized directly in equity of an associate	593	(497)
Changes in investee's equity related to previous share of participation	–	1,698
Foreign exchange revaluation	816	(4,142)
Deferred tax:		
Deferred tax on profit /losses from revaluation of available for sale investments	–	–
Other comprehensive income for the reporting period, net of tax	(940)	(2,184)
Total comprehensive income for the period	(1,050,478)	33,028
Attributable to:		
- shareholders of the Bank	(1,024,053)	33,127
- non-controlling interest	(26,425)	(99)

The accompanying notes on pages 8 to 48 are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2009

(Millions of Kazakh Tenge)

	Share Capital-Common Shares	*Treasury Shares*	*Securities Revaluation Reserve*	*Foreign Currency Translation Reserve*	*Retained Earnings*	*Total*	*Non-controlling interest*	*Total*
1 January 2008	303,427	(555)	(195)	104	129,938	432,719	19,312	452,031
Total comprehensive income for the period (unaudited)	–	–	297	(2,477)	35,307	33,127	(99)	33,028
Issue of common shares (unaudited)	29	–	–	–	–	29	–	29
Purchase of treasury shares (unaudited)	–	(5,508)	–	–	–	(5,508)	–	(5,508)
Issue of treasury shares (unaudited)	–	51	–	–	–	51	–	51
Non-controlling interest arising on acquisition (unaudited)	–	–	–	–	–	–	19,678	19,678
Non-controlling interest arising on disposal (unaudited)	–	–	–	–	–	–	(2,797)	(2,797)
30 September 2008 (unaudited)	303,456	(6,012)	102	(2,373)	165,245	460,418	36,094	496,512
Total comprehensive income for the period (unaudited)	–	–	(1,214)	1,425	(1,222,891)	(1,222,680)	(562)	(1,223,242)
Issue of common shares (unaudited)	–	–	–	–	–	–	–	–
Issue of treasury shares (unaudited)	–	4,444	–	–	–	4,444	–	4,444
Purchase of treasury shares (unaudited)	–	–	–	–	–	–	–	–
Non-controlling interest arising on acquisition (unaudited)	–	–	–	–	–	–	15	15
Non-controlling interest arising on disposal (unaudited)		–	–	–	–	–	(16,881)	(16,881)
Purchase of non-controlling interest (unaudited)	–	–	–	–	–	–	(3,627)	(3,627)
31 December 2008	303,456	(1,568)	(1,112)	(948)	(1,057,646)	(757,818)	15,039	(742,779)

The accompanying notes on pages 8 to 48 are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2009

(Millions of Kazakh Tenge)

	Share Capital-Common Shares	*Additional paid-in capital*	*Treasury Shares*	*Securities Revaluation Reserve*	*Foreign Currency Translation Reserve*	*Retained Earnings*	*Total*	*Non-controlling interest*	*Total*
1 January 2009	303,456	–	(1,568)	(1,112)	(948)	(1,057,646)	(757,818)	15,039	(742,779)
Total comprehensive income for the period (unaudited)	–	–	–	(1,756)	688	(1,022,985)	(1,024,053)	(26,425)	(1,050,478)
Issue of common shares (unaudited) (Note 19)	212,095	–	–	–	–	–	212,095	–	212,095
Additional paid-in capital (Notes 11, 18)	–	(38,798)	–	–	–	–	(38,798)	–	(38,798)
Purchase of treasury shares (unaudited)	–	–	(6,045)	–	–	–	(6,045)	–	(6,045)
Sale of treasury shares (unaudited)	–	–	1,138	–	–	–	1,138	–	1,138
Contribution of non-controlling shareholders to subsidiaries equity (unaudited)	–	–	–	–	–	–	–	605	605
Acquisition of non-controlling interest (unaudited)	–	–	–	–	–	–	–	(292)	(292)
Change of non-controlling interest from redistribution of shares in subsidiaries (unaudited)	–	–	–	–	–	–	–	535	535
30 September 2009 (unaudited)	515,551	(38,798)	(6,475)	(2,868)	(260)	(2,080,631)	(1,613,481)	(10,538)	(1,624,019)

The accompanying notes on pages 8 to 48 are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2009

(Millions of Kazakh Tenge)

	Note	*Nine-month periods ended 30 September* 2009 (unaudited)	2008 (unaudited)
Cash flows from operating activities:			
Interest received		111,365	222,403
Interest paid		(150,003)	(156,741)
Income received from foreign currencies dealing		(9,513)	884
Gains less losses from trading securities		(1,325)	2,255
Fee and commission received		8,626	20,235
Fee and commission paid		(1,113)	(861)
Cash received from insurance operations		5,302	7,212
Cash paid for insurance operations		(3,509)	(2,126)
Cash paid to employees		(15,007)	(14,333)
Recovery of loans previously written-off	7, 10	1,730	2,190
Cash paid for obligatory deposits insurance		(1,353)	(1,725)
Operating expenses paid		(25,630)	(23,034)
Cash flows provided by (used in) operating activities before changes in operating assets and liabilities		(80,430)	56,359
Net increase/decrease in cash from operating assets and liabilities			
Net decrease in obligatory reserves		24,680	17,883
Net increase in financial assets at fair value through profit or loss		(7,026)	(60,956)
Net decrease/(increase) in amounts due from credit institutions		23,178	(3,149)
Net decrease/(increase) in loans to customers		109,611	(328,593)
Net increase in bonds of Samruk-Kazyna		(645,000)	–
Net increase in other assets		(80)	(7,488)
Net increase in due to the Government and National Bank		404,657	6,753
Net (decrease)/increase in amounts due to credit institutions		(210,845)	25,684
Net (decrease)/increase in amounts due to customers		(294,601)	306,073
Net decrease in other liabilities		(8,569)	(8,745)
Net cash flows from (used in) operating activities before income tax		(684,425)	3,821
Income tax paid		(697)	(9,842)
Net cash used in operating activities		(685,122)	(6,021)
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(12,118)	(52,076)
Disposal of investment securities available-for-sale		7,809	18,108
Acquisition of subsidiaries, net of cash received		–	28,458
Acquisition of non-controlling interest		(292)	(8,970)
Investment in associates		(3,269)	(197)
Dividends received from associates		–	658
Purchase of property and equipment		(3,146)	(5,176)
Proceeds from disposal of property and equipment		1,142	1,885
Net cash used in investing activities		(9,874)	(17,310)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2009

(Millions of Kazakh Tenge)

	Note	30 September 2009 (unaudited)	30 September 2008 (unaudited)
Cash flows from financing activities			
Proceeds from debt securities issued		647,033	117,618
Redemption of debt securities issued		(224,856)	(48,135)
Proceeds from sale of common shares	19	212,095	29
Contribution to subsidiaries by non-controlling interest		605	–
Purchase of treasury shares		(6,045)	(5,508)
Proceeds from sale of treasury shares		1,138	51
Net cash from financing activities		629,970	64,055
Effect of exchange rate changes on cash and cash equivalents		7,286	(4,407)
Net increase/(decrease) in cash and cash equivalents		(57,740)	36,317
Cash and cash equivalents at beginning of the period		87,893	99,723
Cash and cash equivalents at the end of the period	4	30,153	136,040
Non-cash transactions:			
Reclassification of investments in associates to available-for-sale securities		–	11,937

The accompanying notes on pages 8 to 48 are an integral part of these interim condensed consolidated financial statements

(Millions of Kazakh Tenge)

1. Principal activities

JSC BTA Bank and its subsidiaries (together the "Group") provide retail and corporate banking services, insurance services, leasing and other financial services in Kazakhstan, Armenia, Georgia, Belorussia, Kyrgyzstan and Russian Federation. The parent company of the Group is BTA Bank (the "Bank"), a joint stock company. The Bank is incorporated and domiciled in the Republic of Kazakhstan. Note 3 lists the Bank's subsidiaries and associates.

The address of the Bank's registered office is: 97 Zholdasbekov Street, Samal-2, Almaty, 050051, Republic of Kazakhstan.

The Bank accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. In addition, the Group is authorized to accept pension fund deposits. The Bank has a primary listing in the Kazakhstani Stock Exchange ("KASE"). Certain of the Group's debt securities are listed on the Luxemburg Stock Exchange and London Stock Exchange with a secondary listing on the KASE. Its head office is located in Almaty, Kazakhstan. At 30 September 2009, the Bank had 22 regional branches and 237 cash settlement units (as at 31 December 2008, the Bank had 22 regional branches and 279 cash settlement units), located throughout Kazakhstan and representative offices in Shanghai, China; Moscow, Russia; Kiev, Ukraine; Dubai, United Arab Emirates; London, Great Britain.

National Welfare Fund Samruk-Kazyna is the ultimate parent ("Parent" or "Shareholder") of the Group.

As of 30 September 2009, members of the Board of Directors and Management Board owned 37 ordinary shares or 0.0001% of issued capital (31 December 2008 – 111 shares or 0.0013 %).

2. Going concern

During the fourth quarter of 2008 there was a significant deterioration in the consolidated financial position of BTA Bank and its subsidiaries principally resulting from loss events related to loan portfolio. This led to a breach by the Bank and the Group of certain prudential requirements including those related to capital adequacy set by the Financial Markets Supervision Agency (the "FMSA"). In addition, in February 2009 Kazakh Tenge has devalued against US dollar from 120 to 150 Kazakh Tenge per 1 US Dollar. This also has negatively affected the Bank and its customers, resulting in further deterioration of the Bank's assets. As a result of these loss events the Group's total liabilities as at 30 September 2009 exceeded its total assets by KZT 1,624,019 million (31 December 2008: KZT 742,779 million) and the Group has reported a net loss amounting to KZT 1,049,538 million for the nine-month period then ended. This led the Bank to non-compliance of certain ratios, including capital adequacy ratio as calculated in accordance with Basel Capital Accord 1988 requirements.

As at 30 September 2009 the amount drawn by the Group under bond programs and loan facilities amounted to KZT 2,423,224 million (31 December 2008: KZT 1,891,092 million). In accordance with the contractual terms of these bond programs and loan facilities, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies.

The Bank was in breach of these capital adequacy and lending exposure covenants on syndicated loans, bond programs and certain other facilities as at 30 September 2009 and 31 December 2008. In addition, in April 2009, the credit ratings of the Bank from major international rating agencies have been decreased to default levels. Accordingly, certain credit facilities are in default and have become callable by the lenders. The Bank's default under these covenants resulted in accelerations and cross-defaults under the terms of the respective agreements.

In April 2009 the Bank suspended its payments on principal and in July on interest payments. The Group, with the support of the National Welfare Fund "Samruk-Kazyna" ("the controlling shareholder") is in the process of restructuring its debts. After the debt restructuring, the controlling shareholder has committed to provide to the Bank sufficient funds to enable the Bank to both repay interest and principal in accordance with restructured maturities and to continue the Bank's operations.

Starting from February 2009, the controlling shareholder and the management of the Bank have been executing several initiatives aimed at improving liquidity and enabling the Group to continue its operations including, but not limited, to the following:

(a) In March 2009, the controlling shareholder purchased the Bank's bonds totaling KZT 645 billion;

(b) In 2009, significant funds were placed on current accounts with the Group by entities owned by the controlling shareholder;

(c) the Bank is an active participant of governmental programs. Under Governmental anti-crisis programs the Group received KZT 40 billion to refinance mortgage loans and KZT 22 billion to finance medium and small size entities. Furthermore the Bank is a key financial institution for realization of stabilization and support of a real sector of economy.

2. Going concern (continued)

(d) On 21 September 2009 the Bank signed a Memorandum of Understanding with the Creditors' Steering Committee on debt restructuring.

(e) On 16 October 2009 the ruling of the specialized financial court of Almaty city concerning the restructuring of the Bank came into the legal force. In accordance with the law of the Republic of Kazakhstan "On banks and bank activities" the decision on Bank restructuring was recognized reasonable and competent in meeting all legislation requirements.

The Bank was prescribed to present to and approve with Creditors the restructuring plan which would be considered satisfactory for all creditors on restructuring of the Bank's debt. The aim of restructuring was also to satisfy FMSA regulative requirements on capital adequacy on the moment of restructuring and fair offset of debt to creditors of the Bank.

(f) On 7 December 2009 the Bank signed with its creditors a commercial term sheet on debt restructuring ("Term sheet"). According to the Term sheet the Group's external debt amounting to US Dollar 11.6 billion will be settled by cash of US Dollar 1 billion, new senior debt of US Dollar 3,067 million, new subordinated debt of US Dollar 797 million and revolving committed trade finance facility of US Dollar 700 million as well as recovery notes, which provide the holders with 50% of the qualified bad assets, which the Bank recovers in the future. As a result of the restructuring it is expected that the Group's regulatory capital will be increased to comply with FMSA requirements.

(g) In December 2009 restructuring proceedings that have been commenced in respect of the Bank before the Specialised Financial Court in Almaty have been recognized in Great Britain as a main foreign proceeding. This recognition was granted by order of the High Court of Justice of England and Wales on 18 December 2009.

Because of the negative events described above there is a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. Therefore, the Bank may be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements of the Group have been prepared on a going concern basis that contemplates the realization of restructuring of its long-term debt and continued adequate support from the controlling shareholder of the Bank.

These interim condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary if the restructuring of debt is unsuccessful and adequate additional resources are not available and/or the Bank is unable to continue as a going concern.

3. Basis of preparation

General

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Accordingly, they do not include all of the information required by International Financial Reporting Standards ("IFRS") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and provisions) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended 30 September 2009 are not necessarily indicative of the results that may be expected for the year ending 31 December 2009.

These interim condensed consolidated financial statements are presented in millions of Kazakh Tenge ("KZT"), except per share amounts and unless otherwise indicated. The KZT is utilized as the shareholders, the managers and the regulators measure the Group's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Group. Significant foreign currency positions are maintained as they are necessary to meet customers' requirements, manage foreign currency risks and achieve a proper assets and liabilities structure for the Group's statement of financial position. Transactions in other currencies are treated as transactions in foreign currencies.

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2008, considering the effect of the adoption of the new IFRSs and revision of the existing International Accounting Standards ("IAS").

(Millions of Kazakh Tenge)

3. Basis of preparation (continued)

Consolidated subsidiaries

The interim condensed consolidated financial statements include the following subsidiaries:

Subsidiaries	*Holding, %* 30 September 2009	31 December 2008	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC Subsidiary of JSC BTA - BTA Securities	100.00%	100.00%	Kazakhstan	17.10.97	Securities trading and asset management	13.12.97
JSC Subsidiary of JSC BTA - Accumulative Pension Fund BTA Kazakhstan	86.05%	95.20%	Kazakhstan	11.12.97	Pension fund	16.09.98
JSC BTA Ipoteka Subsidiary Mortgage company of JSC BTA	100.00%	100.00%	Kazakhstan	20.11.00	Consumer mortgage lending	20.11.00
JSC Subsidiary Life Insurance company of BTA - BTA Zhizn	100.00%	100.00%	Kazakhstan	22.07.99	Life insurance	30.03.01
JSC Subsidiary insurance company of BTA - BTA Zabota	98.17%	98.17%	Kazakhstan	10.09.96	General insurance	04.04.01
TuranAlem Finance B.V. LLP	100.00%	100.00%	Netherlands	22.05.01	Capital markets	22.05.01
LLC Subsidiary of JSC BTA Bank TuranAlem Finance	100.00%	100.00%	Russia	22.06.04	Capital markets	28.09.04
JSC Subsidiary of JSC BTA Insurance Company London-Almaty	99.54%	99.40%	Kazakhstan	20.11.97	Property and liability insurance	05.08.04
BTA Finance Luxembourg S.A.	86.11%	86.11%	Luxemburg	05.01.06	Capital markets	06.03.06
JSC Subsidiary company of BTA - BTA Insurance	100.00%	100.00%	Kazakhstan	08.09.98	Property and liability insurance	21.12.06
JSC Subsidiary of JSC BTA TemirBank	70.51%	69.85%	Kazakhstan	26.03.92	Bank activities	29.12.06
CJSC BTA Bank, Kyrgyzstan	71.00%	71.00%	Kyrgyzstan	02.12.96	Bank activities	19.11.07
TemirCapital B.V.	100.00%	100.00%	Netherlands	29.05.01	Operations on capital markets	29.12.06
BTA Bank CJSC	99.29%	99.29%	Belorussia	25.04.02	Bank activities	30.10.08
First Kazakh Securitization Company	–	–	Netherlands	08.12.05	Securitization of financial assets	–
Second Kazakh Securitization Company	–	–	Netherlands	25.09.07	Securitization of financial assets	–
BTA DPR Finance Company	–	–	Cayman Islands	02.09.07	Financial services	02.09.07

In December 2008, JSC Accumulative Pension Fund BTA Kazakhstan, the Bank's subsidiary, authorized to issue 5,000,000 common shares. As at 31 December 2008, 3,841,585 common shares were issued and paid by the Bank. As a result the Group's share in JSC Accumulative Pension Fund BTA Kazakhstan increased to 95.20%. Gain from increase of Group's share amounted to KZT 843 million.

In February and March 2009 JSC Accumulative Pension Fund BTA Kazakhstan placed the remaining 1,158,415 common shares of which 553,185 were purchased by BTA Bank. As a result BTA Bank's share in Pension Fund BTA Kazakhstan decreased to 86.05%.

(Millions of Kazakh Tenge)

3. Basis of preparation (continued)

Associates accounted for under equity method

The following associates are accounted for under the equity method and included into investments in associates:

30 September 2009 (unaudited) Associates	Holding, %	Country	Activities	Share in net income / (loss) for 9 months ended 30 September 2009 (unaudited)	Total assets	Total liabilities	Equity
BTA Bank LLC	22.26%	Russia	Bank	–	159,738	167,639	(7,901)
BTA Bank OJSC	49.99%	Ukraine	Bank	(355)	44,680	17,880	26,800
BTA Bank JSC	49.00%	Georgia	Bank	(154)	12,831	9,533	3,298
BTA Bank CJSC	48.93%	Armenia	Bank	74	3,391	1,239	2,152
JSCB BTA Kazan OJSC	47.32%	Russia	Bank	47	56,400	45,311	11,089
BTA ORIX Leasing JSC	45.00%	Kazakhstan	Leasing	(66)	5,010	3,017	1,993
Temir Leasing JSC	45.80%	Kazakhstan	Leasing	24	3,530	1,598	1,932
Sekerbank	33.98%	Turkey	Bank	4,599	863,180	738,359	124,821

31 December 2008 Associates	Holding, %	Country	Activities	Share in net income for 9 months ended 30 September 2008 (unaudited)	Total assets	Total liabilities	Equity
BTA Bank LLC	22.26%	Russia	Bank	–	196,389	236,125	(39,736)
BTA Bank OJSC	49.99%	Ukraine	Bank	–	35,418	11,607	23,811
BTA Bank JSC	49.00%	Georgia	Bank	80	11,542	8,530	3,012
BTA Bank CJSC	48.93%	Armenia	Bank	(365)	5,202	3,030	2,172
JSCB BTA Kazan OJSC	47.32%	Russia	Bank	322	37,770	28,943	8,827
BTA ORIX Leasing JSC	45.00%	Kazakhstan	Leasing	108	6,047	3,922	2,125
Temir Leasing JSC	45.63%	Kazakhstan	Leasing	40	4,070	1,874	2,196
Sekerbank	33.98%	Turkey	Bank	4,061	653,616	578,808	74,808

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of new Standards and Interpretations, noted below:

Early adoption of amendments to IFRS 3 "Business combinations" and amendment to IAS 27 "Consolidated and Separate financial statements"

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with non-controlling interests.

The Group has elected to early adopt these amendments starting from 1 January 2009. In accordance with these amendments total comprehensive loss is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. As a result, total comprehensive loss of the Group's subsidiaries in the amount of KZT 26,425 million were attributed to non-controlling interests.

(Millions of Kazakh Tenge)

3. Basis of preparation (continued)

Changes in accounting policies (continued)

IFRS 7 "Financial Instruments: Disclosures"

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in Note 25, and the liquidity risk disclosures are not significantly impacted by the amendments.

IFRS 8 "Operating Segments"

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary (business and geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 "Segment Reporting". Additional disclosures about each of these segments are shown in Note 26, including revised comparative information.

IAS 1 (Revised) "Presentation of Financial Statements"

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 (Revised) "Borrowing Costs"

The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the Standard this has been adopted as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

Improvements to IFRS

In May 2008 International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Group, except for the amendment to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", as described below.

IAS 20 has been amended to require that loans received from the government that have a below-market rate of interest be recognized and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognised in the statement of financial position. This benefit is accounted for in accordance with IAS 20. The amendment is applied prospectively to government loans received on or after 1 January 2009.

The following new or revised standards and interpretations effective from 2009 did not have any impact on the accounting policies, financial position or performance of the Group:

Amendment to IFRS 2 "Share-based Payment – Vesting Conditions and Cancellations"

Amendment to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation"

Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and to IAS 39 "Financial Instruments: Recognition and Measurement"

IFRIC 13 "Customer Loyalty Programmes"

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC 18 "Transfers of Assets from Customers".

(Millions of Kazakh Tenge)

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 September 2009 (unaudited)	*31 December 2008*
Cash on hand	7,181	5,248
Current accounts with other financial institutions	16,963	34,931
Current accounts with the NBK and National bank of Belorussia	97	195
Time deposits with contractual maturity of less than 90 days	1,630	27,200
Reverse repurchase agreements with contractual maturity of less than 90 days	3,982	20,109
Time loans with contractual maturity of less than 90 days from the date of origination	300	238
Cash and cash equivalents	30,153	87,921
Less – Allowance for impairment	–	(28)
Cash and cash equivalents	30,153	87,893

The Group entered into reverse repurchase agreements on KASE . The subject of these agreements was mainly treasury bills of the Ministry of Finance and other liquid securities. Fair value of the collateral as at 30 September 2009, was KZT 5,056 million (2008 – KZT 29,406 million).

As at 30 September 2009, balances with ten banks accounted for 26.22% of total cash and cash equivalents (31 December 2008 balances with ten banks accounted for 72.81% of total cash and cash equivalents).

5. Obligatory reserves

Obligatory reserves comprise:

	30 September 2009 (unaudited)	*31 December 2008*
Deposits with the NBK	6,486	27,601
Cash on hand allocated to obligatory reserves	36,517	36,453
Obligatory reserves	43,003	64,054

Under Kazakh legislation, the Group is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Group. Historically, such reserves must be held in either non-interest bearing deposits with the NBK or in physical cash computed based on average balances of the aggregate of non-interest bearing deposits with the NBK and physical cash in national and hard currencies during the period of reserves creation. The use of such funds is, therefore, subject to certain restrictions.

In 2008 in accordance with the financial markets stability program, the NBK decreased obligatory reserve requirements from 6% to 2% for domestic liabilities, and from 8% to 3% for external debt. Furthermore, since 3 March 2009, minimum reserve requirement for the second tier banks were decreased from 2% to 1.5% for domestic liabilities, and from 3% to 2.5% for other liabilities.

As at 30 September 2009, the Bank was not in compliance with minimum reserve requirements set for second tier banks.

By the resolution of the NBK Board dated 30 November 2009 amendments were introduced into the resolution of the NBK dated 23 June 2008 "On setting the obligatory reserve ratio" for the second tier banks for which there is res judicata concerning restructuring of the Bank. According to these amendments the obligatory reserve ratio for the Bank is set at zero percent for both internal and external liabilities. The zero ratio is valid until restructuring process is finalized.

(Millions of Kazakh Tenge)

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	30 September 2009 (unaudited)	31 December 2008
Debt securities:		
Corporate bonds	50,358	59,979
Notes of the NBK	–	9,918
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	21,218	25,019
Sovereign bonds of OECD countries	9,139	3,793
Bonds of Kazakhstan financial institutions	4,984	2,887
Bonds of Kazakhstan non-financial institutions	4,795	4,841
Bonds of international financial organizations	100	80
Treasury bills of the Ministry of Finance of Russian Federation	3	2
	90,597	106,519
Equity securities	30,051	21,631
Financial assets at fair value through profit or loss	120,648	128,150
Subject to repurchase agreements	–	65,472

Counterparties of the Group under repurchase agreements do not have the right to sell or repledge securities pledged under these agreements.

As at 30 September 2009, the Group had no assets designated as financial assets at fair value through profit or loss at initial recognition.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 September 2009 (unaudited)	31 December 2008
Loans	68,136	70,224
Deposits	10,766	19,389
Amounts due from credit institutions, gross	78,902	89,613
Less – Allowance for impairment	(47,463)	(4,439)
Amounts due from credit institutions	31,439	85,174

As at 30 September 2009, amounts due from ten largest credit institutions comprised 32.57% of total amounts due from credit institutions (31 December 2008 amounts due from ten largest credit institutions comprised 80.17%).

The movements in allowance for impairment of amounts due from credit institutions were as follows:

1 January 2008	123
Impairment charge	553
Recoveries	176
Write-offs	(84)
Foreign currency revaluation	(28)
30 September 2008	740
Impairment charge	3,620
Recoveries	221
Foreign currency revaluation	(142)
31 December 2008	4,439
Impairment charge	41,250
Write-offs	(1)
Foreign currency revaluation	1,775
30 September 2009	47,463

(Millions of Kazakh Tenge)

8. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as at 30 September and 31 December and are indicative of neither the market risk nor the credit risk.

	30 September 2009 (unaudited)			*31 December 2008*		
	Notional principal	*Fair values*		*Notional principal*	*Fair values*	
		Asset	*Liability*		*Asset*	*Liability*
Currency swaps	1,122	2	(1)	136,115	562	(472)
Forwards and futures	956	–	(39)	27,799	799	(1,420)
Interest rate swaps	238,800	11,505	(2,268)	462,318	20,289	(16,897)
Options	107,986	19,839	–	–	–	–
Total derivative assets/liabilities		31,346	(2,308)		21,650	(18,789)

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates.

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

As at 30 September 2009 and 31 December 2008 the Bank had certain loans that are foreign currencies linked debt instruments with a floor feature, i.e. where interest and principal payments are linked to foreign currencies, in such a way, that the Bank has an option to demand higher payments if the foreign currency specified in the contract will appreciate above a certain floor (floor is generally set at the level of spot rates prevailing on the loans issue date). At the same time, if the foreign currency rates will fall below the floor, interest and principal payments will remain at original level.

The Bank believes that the above feature comprises an embedded foreign currency option is embedded derivative that should be separated from the host contract and recorded as a separate financial instrument measured at fair value through profit or loss in the financial statements.

(Millions of Kazakh Tenge)

9. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	30 September 2009 (unaudited)	*31 December 2008*
Corporate bonds	13,230	15,142
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	4,655	2,129
Bonds of Kazakhstan financial institutions	916	312
Notes of the NBK	868	218
Treasury bills of the Ministry of Finance of Kyrgyzstan	481	409
Treasury bills of the Ministry of Finance of the Republic of Belorussia	288	912
Bonds of international financial organizations	–	–
	20,438	19,122
Equity securities	1,806	1,328
Mutual fund shares	–	32
Available-for-sale investment securities	22,244	20,482

10. Loans to customers

Loans to customers comprise:

	30 September 2009 (unaudited)	*31 December 2008*
Corporate lending	2,443,296	2,071,991
Small and medium business lending	235,512	256,833
Individuals lending	497,356	505,517
Loans to customers, gross	3,176,164	2,834,341
Less – Allowance for impairment	(2,068,923)	(1,217,278)
Loans to customers	1,107,241	1,617,063

Gross loans have been extended to the following types of customers:

	30 September 2009 (unaudited)	*31 December 2008*
Private companies	2,670,926	2,321,272
Individuals	497,356	505,517
State companies	7,674	7,353
Other	208	199
Loans to customers, gross	3,176,164	2,834,341

(Millions of Kazakh Tenge)

10. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending 2009	*Small and medium business lending 2009*	*Individuals lending 2009*	*Total 2009*
As at 1 January 2009	1,174,310	21,162	21,806	1,217,278
Charge for the period (unaudited)	504,543	39,194	56,617	600,354
Amounts written off (unaudited)	(23,437)	(6,782)	(7,606)	(37,825)
Recoveries (unaudited)	13	146	1,571	1,730
Foreign currency revaluation (unaudited)	280,528	1,417	5,441	287,386
As at 30 September 2009 (unaudited)	1,935,957	55,137	77,829	2,068,923
Individually impaired, 30 September 2009 (unaudited)	1,917,026	39,450	66,140	2,022,616
Collectively impaired, 30 September 2009 (unaudited)	18,931	15,687	11,689	46,307
	1,935,957	55,137	77,829	2,068,923
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance, 30 September 2009 (unaudited)	2,163,547	72,012	153,832	2,389,391
As at 1 January 2008	111,502	23,231	2,310	137,043
Charge for the period (unaudited)	65,577	1,396	12,493	79,466
Amounts written off (unaudited)	(6,225)	(5,993)	(5,577)	(17,795)
Recoveries (unaudited)	271	736	1,007	2,014
Foreign currency revaluation(unaudited)	(1,232)	(99)	(226)	(1,557)
Amounts arising on business combination (unaudited)	4,211	–	1,392	5,603
As at 30 September 2008 (unaudited)	174,104	19,271	11,399	204,774
Individually impaired, 30 September 2008 (unaudited)	78,032	6,687	6,545	91,264
Collectively impaired, 30 September 2008 (unaudited)	96,072	12,584	4,854	113,510
	174,104	19,271	11,399	204,774
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance, 30 September 2008 (unaudited)	189,081	17,275	16,914	223,270
As at 30 September 2008	174,104	19,271	11,399	204,774
Charge for the period (unaudited)	1,001,498	(2,220)	11,383	1,010,661
Amounts written off (unaudited)	4,520	3,175	(429)	7,266
Recoveries (unaudited)	37	870	1,478	2,385
Foreign currency revaluation (unaudited)	364	66	(23)	407
Amount arising from disposal of subsidiaries (unaudited)	(6,213)	–	(2,002)	(8,215)
As at 31 December 2008	1,174,310	21,162	21,806	1,217,278
Individually impaired	1,141,870	9,094	15,031	1,165,995
Collectively impaired	32,440	12,068	6,775	51,283
	1,174,310	21,162	21,806	1,217,278
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance, 31 December 2008	1,355,897	15,637	25,846	1,397,380

10. Loans to customers (continued)

Individually impaired loans

During 2009, the quality of the Bank's loan portfolio continued to deteriorate as a result of the following circumstances and actions taken before the current management of the Bank were appointed by the National Welfare Fund Samruk-Kazyna - a controlling shareholder of the Bank:

- A number of significant borrowers, primarily registered outside Kazakhstan, who during 2008 continued servicing their debt in accordance with terms of loan agreements, have ceased servicing their loans in 2009, have not allowed the Bank to monitor collateral or failed to provide information about their financial performance.
- A number of borrowers, whom the Bank had communications at the beginning of 2009, ceased to communicate with the Bank.
- Collateral on certain borrowers, which was considered for calculation of allowances as at 31 December 2008, become no longer available in 2009, due to cancellation of encumbrances by borrowers and further resale to third parties or pledge under other loans from other banks.

The Bank has concluded that the loss event on those loans occurred during 2009 since:

- practice of lending through off-shore companies allowed these borrowers to break the link to final borrowers and helped to dishonor the loan and collateral agreements. Whereby, most of the borrowers and pledgers are different legal entities.
- in the beginning of 2009 certain loans to non-residents were issued to finance start-up projects without proper economic expertise of the borrowers' ability to serve the loan.
- During 2009 the Bank has suspended further financing of investment loans issued earlier, which were assessed as unimpaired as at 31 December 31, 2008.

While the Bank continues its efforts related to the recovery of the above loans, the Bank's Management considers that loans where a borrower fails to service debt, monitoring of the borrowers has not been possible, there is neither properly registered collateral nor other necessary legal documentation, to be fully impaired and has created an allowance for the full carrying amount of such loans.

In addition, the ongoing financial crisis has affected the borrowers' ability to service their obligations and the value of collateral.

Interest income accrued on loans, for which individual impairment allowances have been recognized, as of 30 September 2009, comprised KZT 255,511 million (31 December 2008 – KZT 141,743 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 30 September 2009 amounts to KZT 338,163 million (31 December 2008: KZT 583,015 million). In accordance with the NBK requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

During the nine-month period, the Group took possession of collateral with an estimated value of KZT 2,542 million, which the Group is in the process of selling (2008 – KZT 11,207 million), which is included in other assets. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 30 September 2009 was 18,290 million (2008- KZT 83,629 million).

(Millions of Kazakh Tenge)

10. Loans to customers (continued)

Derecognition of a loan portfolio

The Group has been periodically selling part of its mortgage loan portfolio to Kazakhstan Mortgage Company ("KMC"), with full recourse to the Group for any loans in default. The Group has determined that, as a result of this transaction, not substantially all the risks and rewards of the portfolio have been transferred to KMC. Therefore, the Group continues to recognise these loans as an asset on its consolidated statement of financial position with the corresponding liability recorded in loans from financial institutions for the same amount. As at 30 September 2009, these loans amounted to KZT 7,257 million (2008 – KZT 9,082 million).

As at 30 September 2009, loans to customers include loans of KZT 54,458 million, which are pledged as collateral for the mortgage-backed bonds (31 December 2008: KZT 64,917 million).

Concentration of loans to customers

As at 30 September 2009, the Group had a concentration of loans represented by KZT 485,800 million due from the ten largest borrowers that comprised 15.2% of the total gross loan portfolio (2008 – KZT 409,465 million, 14%). Allowances amounting to KZT 450,318 million were recognised against these loans as at 30 September 2009 (2008 – KZT 315,565 million).

As at 30 September 2009, the Group had loans in the amount of KZT 511,879 million (2008: KZT 494,799 million), with interest and principal repayable at maturity. Allowances in the amount of KZT 360,296 million were recognized against these loans as at 30 September 2009(at 31 December 2008 – KZT 236,111 million).

Loans are made to the following sectors:

	30 September 2009 (unaudited)	*%*	*31 December 2008*	*%*
Real estate investments	530,050	16.7%	435,188	15.4%
Individuals	497,356	15.7%	505,517	17.8%
Housing construction	477,792	15.0%	415,536	14.7%
Oil & gas	383,517	12.1%	314,970	11.1%
Wholesale trade	324,833	10.2%	298,573	10.5%
Construction of roads and industrial buildings	275,543	8.7%	206,066	7.3%
Agriculture	154,722	4.9%	142,819	5.0%
Energy	72,016	2.3%	84,266	3.0%
Chemical industry	69,970	2.2%	62,783	2.2%
Retail trade	58,050	1.8%	62,116	2.2%
Transport	44,637	1.4%	51,087	1.8%
Food industry	40,941	1.3%	40,152	1.4%
Mining	36,803	1.2%	35,580	1.3%
Telecommunication	33,235	1.0%	25,244	0.9%
Metallurgical industry	30,795	1.0%	25,374	0.9%
Hospitality	17,200	0.5%	13,903	0.5%
Financial services	14,008	0.4%	12,968	0.5%
Textile and leather industry	13,802	0.4%	11,241	0.4%
Production of machinery and equipment	9,686	0.3%	12,259	0.4%
Publishing	845	0.0%	1,059	0.0%
Production of rubber and plastic articles	756	0.0%	894	0.0%
Research & development	590	0.0%	818	0.0%
Other	89,017	2.9%	75,928	2.7%
	3,176,164	100.0%	2,834,341	100.0%

(Millions of Kazakh Tenge)

10. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans to individuals consisted of the following:

	30 September 2009 (unaudited)	31 December 2008
Consumer loans	256,731	271,387
Mortgage loans	240,625	234,130
	497,356	505,517

Finance lease receivable

Net investment in finance leases consisted of the following:

	30 September 2009 (unaudited)	31 December 2008
Minimum lease payments receivable	33,667	22,696
Less: Unearned finance income	(7,798)	(5,549)
Net investment in finance leases	25,869	17,147
Allowance for overdue minimum lease payments receivable	(6,360)	(2)
	19,509	17,145
Current portion of net investment in finance leases	7,484	4,153
Long-term portion of net investment in finance leases	18,385	12,994
	25,869	17,147

11. Bonds of Samruk-Kazyna

The balance of bonds of Samruk-Kazyna as at 30 September 2009 represents non-trading debt securities of the Parent, purchased by the Bank during 2009 at their nominal value of KZT 645,000 million. These debt securities were initially recognized as Loans and receivables and recorded at their fair value of KZT 496,595 million. The difference between the nominal value of these debt securities and their fair value in the amount of KZT 148,405 million was recorded as an additional paid-in capital in the Group's consolidated statement of changes in equity.

As at 30 September 2009 these debt securities were pledged under repurchase agreements with the NBK. The fair value of these debt securities as at 30 September 2009 amounted to KZT 355,507 million.

(Millions of Kazakh Tenge)

12. Goodwill

The movements in goodwill were as follows:

	Goodwill
Cost	
1 January 2008	37,557
Additions (unaudited)	6,173
Acquisitions through business combinations (unaudited)	10,620
Foreign currency revaluation (unaudited)	(1,138)
30 September 2008 (unaudited)	53,212
Acquisitions through business combinations (unaudited)	1,947
Foreign currency revaluation (unaudited)	(753)
Disposals (unaudited)	(8,878)
31 December 2008	45,528
Foreign currency revaluation (unaudited)	20
30 September 2009 (unaudited)	45,548
Accumulated impairment	
1 January 2008	–
Impairment charge (unaudited)	–
30 September 2008 (unaudited)	–
Impairment charge (unaudited)	(8,107)
31 December 2008	(8,107)
Impairment charge (unaudited)	(32,885)
30 September 2009 (unaudited)	(40,992)
Net book value:	
31 December 2008	37,421
30 September 2009 (unaudited)	4,556

Impairment testing of goodwill

The impairment is largely the result of uncertainties in the Kazakhstan economy, especially in the retail and mortgage sectors and deterioration of the subsidiaries' financial position. The Group performed an impairment test of goodwill as at 30 September 2009 and recognized an impairment loss of KZT 32,885 million on goodwill from acquisition of Temirbank JSC.

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, which are also reportable segments, for impairment testing as follows:

- Corporate Banking; and

- Retail Banking.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	30 September 2009 (unaudited)	*31 December 2008*
Corporate Banking	1,997	12,771
Retail Banking	2,559	24,650
	4,556	37,421

Key assumptions used in value in use calculations

The recoverable amount of each cash generating unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management covering a one-year period. The discount rate applied to cash flow projections beyond the one-year period are extrapolated using a projected growth rate. The following rates are used by the Group:

	Temirbank	
	Corporate Banking	*Retail Banking*
Discount rate	12.58%	12.58%
Projected growth rate	1-2%	1-2%

(Millions of Kazakh Tenge)

12. Goodwill (continued)

Key assumptions used in value in use calculations (continued)

The calculation of value in use for both Corporate and Retail Banking units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the budget period;
- Projected growth rates used to extrapolate cash flows beyond the budget period;
- Current local Gross Domestic Product (GDP); and
- Local inflation rates.

Interest margins

Interest margins are based on effective interest rates charged during 2009. These are increased over the budget period for anticipated inflation rates.

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are used to calculate present value of future cash flows expected to receive from cash generating units. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

Market share assumptions

These assumptions are important because, as well as using industry data for growth rates, management assesses how the unit's relative position to its competitors might change over the budget period. Management expects the Group's share of the Retail Banking and Corporate Banking markets, including customer deposits, to be stable over the budget period.

Projected growth rates, GDP and local inflation rates

Assumptions are based on published industry research.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes in key assumptions used to determine the recoverable amount of segments will not result in an additional impairment of goodwill.

13. Other impairment and provisions

The movements in allowances for other losses and provisions were as follows:

	Other assets	*Guarantees and letters of credit*	*Total*
As at 31 December 2008	**1,387**	**104,893**	**106,280**
Impairment charge/(recovery) (unaudited)	4,182	(10,597)	(6,415)
Write-offs (unaudited)	(1,018)	(3)	(1,021)
Recoveries (unaudited)	13	–	13
Foreign currency revaluation (unaudited)	8	26,307	26,315
As at 30 September 2009 (unaudited)	**4,572**	**120,600**	**125,172**

	Other assets	*Guarantees and letters of credit*	*Total*
As at 31 December 2007	360	10,577	10,937
Impairment charge (unaudited)	327	149	476
Write-offs (unaudited)	(482)	–	(481)
Recoveries (unaudited)	75	–	75
Foreign currency revaluation (unaudited)	(27)	(1,031)	(1,058)
As at 30 September 2008 (unaudited)	254	9,695	9,949

(Millions of Kazakh Tenge)

13. Other impairment and provisions (continued)

	Other assets	*Guarantees and letters of credit*	*Total*
As at 30 September 2008	254	9,695	9,949
Impairment charge (unaudited)	1,108	95,248	96,356
Write-offs (unaudited)	5	–	5
Recoveries (unaudited)	(1)	–	(1)
Foreign currency revaluation (unaudited)	21	(50)	(29)
As at 31 December 2008	1,387	104,893	106,280

Allowances for impairment of assets are deducted from the related assets.

14. Taxation

The corporate income tax expense comprises:

	30 September 2009 (unaudited)	*30 September 2008 (unaudited)*
Current tax charge	(612)	(11,642)
Deferred tax (charge)/benefit	(3,016)	4,804
Income tax expense	(3,628)	(6,838)

The Group as at 30 September 2009 and 31 December 2008 had the following balances:

	30 September 2009 (unaudited)	*31 December 2008 (unaudited)*
Deferred tax asset net of deferred tax liabilities	387,839	197,361
Unrecognized deferred tax asset	(385,809)	(192,315)
Net deferred tax asset	2,030	5,046

Deferred tax asset as at 30 September 2009 was mainly comprised of losses carried forward as a result of allowance for bad debts.

In accordance with IAS 12 a deferred tax asset was recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available in future against which the deductible temporary difference can be utilized. As at 30 September 2009 deferred tax asset in the amount of KZT 385,809 million was not recognized as due to restructuring the Group was not able to reliably assess whether it will be able to generate future taxable income against which these temporary differences could be utilized.

15. Amounts due to the Government and National Bank

Amounts due to the Government and National Bank consist of the following:

	30 September 2009 (unaudited)	*31 December 2008*
Loans from the NBK	406,402	28
Amounts due to the Government:		
Interest bearing – KZT denominated	1,076	1,292
Interest bearing – USD denominated	236	193
Interest bearing – EURO denominated	134	136
Interest bearing – KGS denominated	55	55
Loans from the National Bank of Kyrgyzstan	8	14
Amounts due to the Government and National Bank	407,911	1,718

Loans from the NBK represent repurchase agreements under the pledge of debt securities of the Parent. As at 30 September 2009 the fair value of these debt securities was KZT 355,507 million.

(Millions of Kazakh Tenge)

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 September 2009 (unaudited)	31 December 2008
Loans from OECD based banks and financial institutions	446,095	451,737
Syndicated bank loans	167,236	156,617
Loans from Kazakh banks and financial institutions	96,413	126,434
Loans from other banks and financial institutions	25,657	24,201
Pass-through loans	16,033	17,278
	751,434	776,267
Interest-bearing placements from Kazakh banks	44	21,112
Interest-bearing placements from non OECD banks	749	3,484
Loro accounts	409	2,503
	1,202	27,099
Amounts due to credit institutions	752,636	803,366
Subject to repurchase agreements	7,142	65,472

Financial covenants

In accordance with the contractual terms of loan facilities from foreign banks, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major international rating agencies. As at 30 September 2009 and 31 December 2008 the Bank was in breach of capital adequacy, lending exposure and cross default covenants on these loan facilities. As at 30 September 2009 and the date of authorization of these interim condensed consolidated financial statements the Bank was in the process of restructuring these debts.

17. Amounts due to customers

The amounts due to customers included balances in customer current accounts, time deposits, and certain other liabilities, and include the following:

	30 September 2009 (unaudited)	31 December 2008
Time deposits	270,318	684,330
Current accounts	399,171	179,658
Guarantee and restricted deposits	13,792	22,064
Amounts due to customers	683,281	886,052

Guarantee and restricted deposits represent customer's collateral under letters of credit and guarantees issued by the Bank on behalf of customers.

The amounts due to customers included balances in customer current accounts and time deposits, and were analysed as follows:

	30 September 2009 (unaudited)	31 December 2008
Time deposits:		
Commercial entities	28,417	201,240
Individuals	152,658	262,644
State agencies and state-owned entities	87,247	218,209
Non-for-profit entities	1,996	2,237
Current accounts:		
Commercial entities	79,244	124,350
Individuals	26,834	33,864
State agencies and state-owned entities	291,621	20,371
Non-for-profit entities	1,472	1,073
Guarantee and other restricted deposits:		
Commercial entities	9,657	10,762
Individuals	4,060	10,837
State agencies and state-owned entities	74	463
Non-for-profit entities	1	2
Amounts due to customers	683,281	886,052

(Millions of Kazakh Tenge)

17. Amounts due to customers (continued)

Included in time deposits at 30 September 2009 are deposits of individuals in the amount of KZT 152,658 million (31 December 2008 – KZT 262,644 million). In accordance with the Civil Code of the Republic of Kazakhstan, the Group is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

An analysis of customer accounts by sector follows:

	30 September 2009 (unaudited)	%	*31 December 2008*	%
Individuals	183,552	26.9%	307,345	34.7%
Oil and gas	195,311	28.6%	233,290	26.3%
State agencies	174,287	25.5%	28,501	3.2%
Construction	29,800	4.4%	49,060	5.5%
Wholesale trade	22,614	3.3%	81,303	9.2%
Non-credit financial organizations	17,229	2.5%	19,226	2.2%
Transportation	8,966	1.3%	33,113	3.7%
Research and development	4,122	0.6%	11,594	1.3%
Education	3,879	0.6%	7,014	0.8%
Retail trade	3,371	0.5%	4,265	0.5%
Mining	3,063	0.5%	1,912	0.2%
Agriculture	2,030	0.3%	3,887	0.4%
Textile and leather industry	1,968	0.3%	1,607	0.2%
Chemical processing	1,680	0.2%	1,480	0.2%
Machinery and equipment production	1,650	0.2%	5,873	0.7%
Food industry	1,525	0.2%	1,091	0.1%
Energy industry	1,358	0.2%	30,788	3.5%
Metallurgy	799	0.1%	11,475	1.3%
Entertainment	796	0.1%	1,241	0.1%
Communication	412	0.1%	5,425	0.6%
Hotel and hospitality	233	0.0%	353	0.0%
Other	24,636	3.6%	46,209	5.3%
	683,281	100.0%	886,052	100.0%

(Millions of Kazakh Tenge)

18. Debt securities issued

Debt securities issued consisted of the following:

	30 September 2009 (unaudited)	*31 December 2008*
KZT notes with fixed rate	579,281	28,358
USD bonds with fixed rate	496,637	411,068
USD and KZT subordinated notes with fixed rate	171,755	174,271
EUR notes with fixed rate	128,256	85,844
JPY notes with floating rate	75,034	57,598
USD perpetual financial instruments with fixed rate	68,594	54,623
USD notes with floating rate	52,433	165,251
KZT notes with floating rate	43,153	39,555
GBP notes with fixed rate	43,095	34,926
JPY notes with fixed rate	33,799	26,609
CHF notes with floating rate	29,798	23,147
KZT subordinated notes with floating rate	22,269	21,756
RUR notes with fixed rate	15,657	12,555
PLZ notes with fixed rate	11,389	–
PLZ notes with floating rate	–	8,162
RUR deposit certificate	14	19
	1,771,164	1,143,742
Own KZT notes held by the Group	(11,571)	(1,359)
Own USD notes held by the Group	(2,126)	(3,061)
Own USD and KZT subordinated notes held by the Group	(64,045)	(22,365)
	1,693,422	1,116,957
Plus unamortized premium	297	622
Less unamortized cost of issuance	(705)	(699)
Less unamortized discount	(22,426)	(29,154)
Debt securities issued	1,670,588	1,087,726

On 23 January 2009 the Bank has repaid, at maturity, its notes for the total amount of USD 250,000 thousand, issued under the Bank's Global Medium Term Notes Program.

In March 2009 TemirCapital B.V., the Bank's subsidiary, repaid its notes at maturity in the amount of USD 150,000 thousand.

In March 2009 the Group issued debt securities at the nominal value of KZT 645,000 million at a below market interest rate, purchased by the Parent. Fair value at the initial recognition date of these securities amounted to KZT 535,393 million. The difference between the nominal value and the fair value at the initial recognition date of KZT 109,607 million was recognized within Additional paid-in-capital as transaction with the Shareholder of the Group.

In June 2009 DPR Finance Company, the Bank's subsidiary, repaid its notes for the total amount of USD 750,000 thousand.

During 2009 the Group purchased its own bonds with the carrying value of KZT 44,150 million for KZT 34,442 million. Gain on repurchase of own bonds in the amount of KZT 9,708 million was recognized in the consolidated income statement.

As at 30 September 2009 and 31 December 2008 subordinated notes are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group.

In accordance with the terms of the debt securities issued, the Bank is required to maintain certain financial ratios particularly with regard to its liquidity, capital adequacy, and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major rating agencies. As at 30 September 2009 and 31 December 2008, the Bank was in breach of capital adequacy, lending exposure and cross-default covenants on debt securities issued. As at 30 September 2009 and the date of authorization of these interim condensed consolidated financial statements the Bank was in the process of restructuring these debts.

(Millions of Kazakh Tenge)

19. Equity

As of 30 September 2009 and 31 December 2008 share capital comprised:

	Ordinary shares		
	Number of authorized shares	*Number of shares issued*	*Placement value (KZT)*
31 December 2007	8,370,158	8,370,158	303,427
Increase in issued capital	467	467	29
31 December 2008	8,370,625	8,370,625	303,456
Increase in issued capital	29,915,425	25,246,343	212,095
30 September 2009	38,286,050	33,616,968	515,551

As at 30 September 2009, the Group held 1,520,212 shares of the Bank as treasury shares (31 December 2008 –30,586).

The movements of treasury shares were as follows:

31 December 2007	7,522
Number of treasury shares purchased	83,211
Number of treasury shares sold	(420)
30 September 2008	90,313
Number of treasury shares sold	(59,727)
31 December 2008	30,586
Number of treasury shares purchased	1,502,821
Number of treasury shares sold	(13,195)
30 September 2009	1,520,212

At an Extraordinary General Meeting of the Bank held on 14 May 2008, the Bank's shareholders approved the issue of 100,000 convertible preferred shares ("CPS"), which was registered on 9 June 2008 by FMSA. As at 30 September 2009, no CPS were issued.

The Government of the Republic of Kazakhstan in accordance with the Law "On banks and banking activities in the Republic of Kazakhstan" as agreed upon with FMSA adopted a decision on additional capitalization of the Bank. On 2 February 2009 FMSA registered and authorized to issue 29,915,425 ordinary shares of which 25,246,343 were issued and purchased by National Welfare Fund Samruk-Kazyna for KZT 212,095 million.

20. Commitments and contingencies

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstani Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstani banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Also, the borrowers of the Group may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group. Due to the fall in prices in global and Kazakhstani securities markets, the Group may face further decrease in the fair value of securities pledged as collateral against loans extended by the Group. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

(Millions of Kazakh Tenge)

20. Commitments and contingencies (continued)

Legal actions and claims

Legal claims

BTA Bank (Kyrgyzstan)

The Bank is in the process of a legal dispute with CJSC Investment Holding Company ("IHC"), a Kyrgyzstan registered entity. The total amount of this dispute is GBP 30,418,144 equivalent to KZT 7,400 million.

In June 2009, Central Asia Investment Company ("CAIC"), a Kyrgyzstan registered entity and a 100% subsidiary of IHC, obtained a loan from its parent, IHC, of GBP 8,670,000 with an intended use to purchase Kyrgyzstan state securities. CAIC, in violation of the intended purpose of the loan from its parent, used these funds to purchase bonds of TuranAlem Finance B.V. (TAF B.V.), the Bank's subsidiary, at significant discount on the market. The nominal value of purchased bonds was GBP 28,395,000 and accrued interest of GBP 2,023,144. CAIC defaulted on its loan payable to IHC. As a result, IHC filed a lawsuit against BTA Bank, BTA Bank Kyrgyzstan and TAF B.V. claiming a repayment of the full nominal value and interest accrued on bonds of TAF B.V. In accordance with the decision of Bishkek's district court, Bishkek's municipal Court of appeals and the Supreme Court of Kyrgyzstan dated 11 September 2009 the Bank is obliged to pay the full amount and IHC started to collect the funds from the Bank, a guarantor on bonds of TAF B.V., including the Bank's shares in BTA Bank Kyrgyzstan and amounts due to the Bank by BTA Bank Kyrgyzstan.

This decision was made even though in September the Bank was in process of negotiating the restructuring of its debts.

In December 2009, an officer of the court foreclosed on shares held by the Bank in BTA Bank Kyrgyzstan. The management of the Bank believes that decision of Kyrgyzstan courts was not in compliance with international laws and legislation between the Republic of Kazakhstan and Kyrgyzstan. Moreover, the foreclosure was executed with violations of the Law of Kyrgyzstan.

On 5 November 2009 the Bank with support of its controlling shareholder has filed a claim with the Kyrgyzstan government for compensation of GBP 30,418,143 and USD 38,891,000 for damages incurred as a result of illegal acts of Kyrgyz legal and government entities.

At the date of these interim condensed consolidated financial statements the management of the Bank cannot reasonably estimate the possible outcome of this litigation, or the amount and extent of its possible effect to these interim condensed consolidated financial statements.

The Group is subject to various other legal proceedings related to business operations. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these interim condensed consolidated financial statements for any of the contingent liabilities mentioned above.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Group believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at 30 September 2009. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, not reasonably determinable, or both.

(Millions of Kazakh Tenge)

20. Commitments and contingencies (continued)

Tax contingencies (continued)

As at 30 September 2009 and 31 December 2008 the Group's commitments and contingencies comprised the following:

	30 September 2009 (unaudited)	*31 December 2008*
Undrawn loan commitments	434,848	363,490
Commercial letters of credit	57,402	139,524
Guarantees	169,954	175,196
	662,204	678,210
Operating lease commitments		
Not later than 1 year	1,803	1,199
Later than 1 year but not later than 5 years	2,355	3,065
Later than 5 years	3,541	5,881
	7,699	10,145
Less: cash collateral	(13,792)	(22,064)
Less: provisions (Note 13)	(120,600)	(104,893)
Commitments and contingencies	535,511	561,398

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in the Bank, government's and international prime financial organisations' securities, and other assets.

Trust activities

The Group provides custody services for third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these interim condensed consolidated financial statements. As at 30 September 2009 such securities held in this capacity were KZT 273,410 million (31 December 2008 – KZT 294,852 million).

21. Net trading loss

Net loss from trading transactions for the nine months ended 30 September includes:

	Nine-month periods ended	
	30 September 2009 (unaudited)	*30 September 2008 (unaudited)*
Securities	(26,402)	(5,154)
Interest rate instruments	6,382	478
	(20,020)	(4,676)

Securities income /(loss) includes the effect of buying and selling, and changes in the fair value of financial assets at fair value through profit or loss and effect of buying and selling of available-for-sale investment securities as well as changes in fair value of forward transactions with securities.

The results of trading and changes in fair value of interest rate swaps are recorded under income from interest rate instruments.

(Millions of Kazakh Tenge)

22. Salaries and administrative and other operating expenses.

Salaries and other employee benefits and administrative and other operating expenses comprise:

	Nine-month periods ended	
	30 September 2009 (unaudited)	*30 September 2008 (unaudited)*
Salaries and bonuses	(14,903)	(17,727)
Social security costs	(1,576)	(1,669)
Other payments	(521)	(633)
Salaries and other employee benefits	(17,000)	(20,029)
Occupancy and rent	(4,349)	(5,338)
Legal services and consultancy	(3,317)	(1,076)
Repair and maintenance of property and equipment	(1,253)	(1,608)
Security	(1,047)	(1,166)
Communications	(1,019)	(1,230)
Plastic cards	(821)	(571)
Marketing and advertising	(759)	(2,483)
Encashment	(716)	(689)
Transportation expenses	(609)	(1,573)
Agency services	(426)	(366)
Penalties	(415)	(130)
Data processing	(331)	(250)
Business travel and related expenses	(318)	(801)
Office supplies	(193)	(339)
Mail and express services	(124)	(122)
State duty	(84)	(177)
Representation expenses	(31)	(82)
Insurance expense	(23)	(20)
Training	(13)	(73)
Loss on disposals of property and equipment	(12)	(11)
Participation in forums, seminars and conferences	(10)	(122)
Other	(695)	(1,324)
Administrative and other operating expenses	(16,565)	(19,551)

23. Earnings/(loss) per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	30 September 2009 (unaudited)	*30 September 2008 (unaudited)*
Net income attributable to common shareholders for calculation of basic income per share representing net income less dividends declared on irredeemable convertible preferred shares	(1,022,985)	33,609
Weighted average number of common shares for basic and diluted earnings per share	32,958,082	8,370,406
Basic and diluted (loss)/earnings per share (in Kazakh Tenge)	(31,039)	4,015

24. Risk management policies

Introduction

The Group as a combination of financial organizations is exposed to certain types of risks.

The risk management structure is arranged for prompt identification and assessment of risks associated with one or another line of activity. Management understands the high importance of risk management process as an integral part of day-to-day activities of the Group.

Of particular priority is liquidity risk, credit risk, market risk, the latter being subdivided into trading and non-trading risks and operating risks that could affect the equity and income of the Group.

Risk management structure

The Board of Directors

The risk management process is directly subordinated to and accountable to the Board of Directors. The Board of Directors is responsible for the overall risk management approach and for approving the risk management policies and adoption strategic decisions on risk management.

Risk Committee

The Risk Committee oversees the Group's activities on risk management, adopts managerial decisions as related to approval of normative documents and defining lines of activity of subdivisions.

Risk Management Unit

Risk management units are responsible for identification, assessment and monitoring of risks. Daily activities of these units are governed by internal regulations. Within the Group certain units responsible for management of credit, operating, liquidity and market risks are defined. These units are accountable to the Risk Committee and Management Board.

Risk monitoring

Risk Monitoring Units control compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Internal audit function

Internal audit is the most important component of internal control, including risk control. The internal audit function regularly examines adequacy of the internal procedures of the Group. The results are submitted to the Board of Directors, which adopts relevant decisions to improve internal controls.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

24. Risk management policies (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has Credit committees, which are responsible for credit risk management and which set individual limits on borrowers and recommend limits on loan portfolio for further approval by the Management Board. The Regional credit committee is responsible for the credit risk function over issuance of the loans to Russian Federation and other CIS countries.

Financing of borrowers is done by thorough procedures of primary selection of borrowers, preliminary structuring of transaction, project assessment, borrower's financial statement analysis and monitoring and control of risks. Decision on financing of borrowers is made by the respective Credit committee depending on the borrower's limit. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions based on the requirements of Kazakhstani regulation. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

During 2008 the regional credit committee was chaired by the former Chairman of the Board of Directors. This created a conflict of interest, as the regional credit committee reports to the Managing Board, which in turn reports to the Board of Directors. Therefore, the control from the Managing Board was not effective and potentially contributed to the issuance of loans to off-shore companies, which became uncollectible in 2008 and for which the Bank created an allowance as at 31 December 2008 (Refer to Note 10). In 2009 the Bank dismissed the credit committees in Russia, Armenia, Belorussia, Georgia, Ukraine and Kyrgyzstan and established new Regional credit committee, which reports to the Management Board of the Bank. The new members of the Regional Credit Committee include one Deputy Chairman of the Management Board, managing directors and directors of departments of the Bank.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit, which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the contracts. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

(Millions of Kazakh Tenge)

24. Risk management policies (continued)

Credit risk (continued)

Credit-related commitments risks (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Note	*Gross maximum exposure as of 30 September 2009 (unaudited)*	*Gross maximum exposure as of 31 December 2008*
Cash and cash equivalents (excluding cash on hand)	4	22,972	82,645
Obligatory reserves (excluding cash on hand)	5	6,486	27,601
Financial assets at fair value through profit or loss (excluding equity securities)	6	90,597	106,519
Amounts due from credit institutions	7	31,439	85,174
Derivative financial assets	8	31,346	21,650
Available-for-sale investment securities (excluding equity securities)	9	20,438	19,122
Loans to customers	10	1,107,241	1,617,063
Bonds of NWF Samruk-Kazyna	11	511,097	–
Other assets		31,297	23,000
		1,852,913	1,982,774
Financial commitments and contingencies	20	527,812	551,253
Total credit risk exposure		2,380,725	2,534,027

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 10.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines of the statement of financial position, based on the Group's credit rating system.

		30 September 2009 (unaudited)		
	Note	*Neither past due nor impaired*	*Past due or individually impaired*	*Total*
Loans to customers	10			
Corporate lending		220,058	2,223,238	2,443,296
Small and medium business lending		159,401	76,111	235,512
Individuals lending		339,028	158,328	497,356
Total		718,487	2,457,677	3,176,164

		31 December 2008		
	Note	*Neither past due nor impaired*	*Past due or individually impaired*	*Total*
Loans to customers	10			
Corporate lending		702,587	1,369,404	2,071,991
Small and medium business lending		234,748	22,085	256,833
Individuals lending		468,695	36,822	505,517
Total		1,406,030	1,428,311	2,834,341

(Millions of Kazakh Tenge)

24. Risk management policies (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

Past due loans to customers include those that are only past due by a few days. An analysis of past due but not impaired loans, by age, is provided below.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Loan portfolio quality

2008

During the fourth quarter of 2008, the quality of the Bank's loan portfolio significantly deteriorated as a result of circumstances and actions taken before the current management of the Bank were appointed by the controlling shareholder. Certain loan documentation, including collateral and associated additional agreements, primarily relating to financing of projects outside Kazakhstan, is no longer available. In addition, many loans were transferred to new borrowers that do not have adequate sources of repayment. Moreover, no collateral was provided by these new borrowers. Consequently all transferred loans are unsecured. A number of significant borrowers, primarily registered outside Kazakhstan, ceased servicing their loans, did not allow the Bank to monitor collateral or failed to provide information about their financial performance.

2009

During 2009, the quality of the Bank's loan portfolio continued to deteriorate as a result of the following circumstances and actions taken before the current management of the Bank were appointed by the National Welfare Fund Samruk-Kazyna - a controlling shareholder of the Bank:

- A number of significant borrowers, primarily registered outside Kazakhstan, who during 2008 continued servicing their debt in accordance with terms of loan agreements, have ceased servicing their loans in 2009, have not allowed the Bank to monitor collateral or failed to provide information about their financial performance.
- A number of borrowers, whom the Bank had communications at the beginning of 2009, ceased to communicate with the Bank.
- Collateral on certain borrowers, which was considered for calculation of allowances as at 31 December 2008 become no longer available in 2009, due to cancellation of encumbrances by borrowers and further resale to third parties or pledge under other loans from other banks.

The Bank has concluded that the loss event on those loans occurred during 2009 since:

- practice of lending through off-shore companies allowed these borrowers to break the link to final borrowers and helped to dishonor the loan and collateral agreements. Whereby, most of the borrowers and pledgers are different legal entities.
- in the beginning of 2009 certain loans to non-residents were issued to finance start-up projects without proper economic expertise of the borrowers' ability to serve the loan.
- during 2009 the Bank has suspended further financing of investment loans issued earlier, which were assessed as unimpaired as at 31 December 2008.

While the Bank continues its efforts related to the recovery of the above loans, the Bank's Management considers that loans where a borrower fails to service debt, monitoring of the borrowers was not possible, there is neither properly registered collateral nor other necessary legal documentation, to be fully impaired and created an allowance for the full carrying amount of such loans.

In addition, the ongoing financial crisis affected the borrowers' ability to service their obligations and the value of collateral.

As a result of the above, for the nine-month period ended 30 September 2009 the Bank recorded an impairment charge for losses on loans to customers of KZT 600,354 million (2008: KZT 1,090,127 million).

(Millions of Kazakh Tenge)

24. Risk management policies (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets

	Less than 30 days	
	30 September 2009 (unaudited)	31 December 2008
Loans to customers		
Corporate lending	59,691	13,507
Small and medium business lending	4,099	6,448
Individuals lending	4,496	10,976
Total	68,286	30,931

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 30 September 2009 was 18,290 million (2008- KZT 83,629 million).

See 'Collateral and other credit enhancements' in Note 10 for the details of types of collateral held.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class:

	30 September 2009 (unaudited)	31 December 2008
Loans to customers		
Corporate lending	281,437	234,372
Small and medium business lending	11,818	5,202
Individuals lending	2,489	1,982
	295,744	241,556
Amounts due from credit institutions	1,492	1,922
Total	297,236	243,478

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

(Millions of Kazakh Tenge)

24. Risk management policies (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of Group's monetary assets and liabilities is set out below:

	30 September 2009 (unaudited)			
	Kazakhstan	*OECD*	*CIS and other non OECD countries*	*Total*
Assets:				
Cash and cash equivalents	13,866	9,366	6,921	30,153
Obligatory reserves	42,282	–	721	43,003
Financial assets at fair value through profit or loss	65,208	25,389	–	90,597
Amounts due from credit institutions	10,235	1,467	19,737	31,439
Derivative financial assets	19,838	11,506	2	31,346
Available-for-sale investment securities	19,317	–	1,121	20,438
Loans to customers	865,482	112,870	128,889	1,107,241
Bonds of NWF Samruk-Kazyna	511,097	–	–	511,097
Other assets (monetary)	27,912	1,496	1,889	31,297
	1,575,237	162,094	159,280	1,896,611
Liabilities:				
Amounts due to the Government and National bank	407,632	–	279	407,911
Amounts due to credit institutions	96,363	585,148	71,125	752,636
Amounts due to customers	663,433	16,331	3,517	683,281
Derivative financial liabilities	1	2,029	278	2,308
Debt securities issued	725,729	928,983	15,876	1,670,588
Other liabilities	34,509	115	198	34,822
	1,927,667	1,532,606	91,273	3,551,546
Net monetary assets/(liabilities)	(352,430)	(1,370,512)	68,007	(1,654,935)
Notional position	379,913	119,549	170,441	669,903

	31 December 2008			
	Kazakhstan	*OECD*	*CIS and other non OECD countries*	*Total*
Assets:				
Cash and cash equivalents	26,489	41,949	19,455	87,893
Obligatory reserves	62,953	–	1,101	64,054
Financial assets at fair value through profit or loss	94,086	12,433	–	106,519
Amounts due from credit institutions	23,277	–	61,897	85,174
Derivative financial assets	445	20,937	268	21,650
Available-for-sale investment securities	14,829	–	4,293	19,122
Loans to customers	915,099	253,163	448,801	1,617,063
Other assets (monetary)	18,794	1,093	3,113	23,000
	1,155,972	329,575	538,928	2,024,475
Liabilities:				
Amounts due to the Government and National bank	1,472	–	246	1,718
Amounts due to credit institutions	152,328	588,622	62,416	803,366
Amounts due to customers	859,216	15,512	11,324	886,052
Debt securities issued	216,850	858,302	12,574	1,087,726
Derivative financial liabilities	2,375	16,391	23	18,789
Other liabilities	22,784	1,163	10,489	34,436
	1,255,025	1,479,990	97,072	2,832,087
Net monetary assets/(liabilities)	(99,053)	(1,150,415)	441,856	(807,612)
Notional position	388,567	87,103	212,685	688,355

(Millions of Kazakh Tenge)

24. Risk management policies (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its obligations when due. Liquidity risk management is one of the main requirements in the Group's risk management process. When managing the liquidity risk the Group follows two main requirements:

1. conformity with the liquidity norms established by the regulatory bodies; and
2. liquidity management by means of the "financial pool method" and "fund conversion method".

Under the "financial pool method" the Group's monetary assets are considered as one pool, which is split between the primary and the secondary sources for liquidity purposes. The primary source consists of cash and balances on correspondent accounts, and the secondary source consists of highly liquid assets, which have high turnover and are readily available for sale. The primary and the secondary sources are considered as not profit bearing and profit bearing, respectively.

"Fund conversion method" is the distribution of all financing sources depending on the accounts' turnover and reserve requirement for financing of the related assets.

The management of the Asset and Liability Management Committee (ALMC) analyzes the operational data on a weekly basis and makes decisions concerning liquidity management. Frequency of the ALMC meetings may vary depending on the situation. ALMC considers the following issues: GAP analysis of the assets and liabilities broken down by maturity and currencies, duration of assets and liabilities and analysis of future cash flows. All business functions and risk management departments are involved in the process of the Group's liquidity management to provide the information support.

The Management regularly monitors highly-liquid assets that may be disposed at any time. The Bank builds a portfolio consisting of highly-liquid assets, predominantly debt financial instruments issued by the states with high credit ratings.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 30 September 2009 based on undiscounted repayment obligations.

Financial liabilities as at 30 September 2009 (unaudited)	*Within one year*	*More than one year*	*Total*
Amounts due to the Government and National bank	407,271	1,677	408,948
Amounts due to credit institutions	592,694	186,825	779,519
Derivative financial instruments	1,475	833	2,308
Amounts due to customers	523,487	301,942	825,429
Debt securities issued	1,018,988	1,749,423	2,768,411
Other liabilities	43,028	326	43,354
Total undiscounted financial liabilities	2,586,943	2,241,026	4,827,969

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on undiscounted repayment obligations.

Financial liabilities as at 31 December 2008	*Within one year*	*More than one year*	*Total*
Amounts due to the Government and National bank	217	1,902	2,119
Amounts due to credit institutions	698,139	127,258	825,397
Derivative financial instruments	16,689	2,100	18,789
Amounts due to customers	680,055	300,393	980,448
Debt securities issued	769,514	637,713	1,407,227
Other liabilities	34,957	1,306	36,263
Total undiscounted financial liabilities	2,199,571	1,070,672	3,270,243

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	On demand	*Less than month*	*1 to 3 months*	*3 to 12 months*	*1 to 3 years*	*Over 3 years*	*Total*
30 September 2009 (unaudited)	23,434	8,297	81,441	116,030	210,212	222,790	662,204
31 December 2008	14,694	21,095	39,854	192,546	249,788	160,233	678,210

(Millions of Kazakh Tenge)

24. Risk management policies (continued)

Liquidity risk and funding management (continued)

In accordance with terms of debt securities issued and loan agreements the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major rating agencies.

The table below summarises an analysis of assets and liabilities according to when they are expected to be recovered or settled:

30 September 2009 (unaudited)	*Within one year*	*More than one year*	*Total*
Assets:			
Cash and cash equivalents	30,153	–	30,153
Obligatory reserves	17,695	25,308	43,003
Financial assets at fair value through profit or loss	120,648	–	120,648
Amounts due from credit institutions	22,120	9,319	31,439
Derivative financial assets	12,043	19,303	31,346
Available-for-sale investment securities	5,971	16,273	22,244
Loans to customers	263,409	843,832	1,107,241
Bonds of NWF Samruk-Kazyna	–	511,097	511,097
Other assets	28,376	2,921	31,297
	500,415	1,428,053	1,928,468
Liabilities:			
Amounts due to the Government and National bank	406,430	1,481	407,911
Amounts due to credit institutions	453,892	298,744	752,636
Derivative financial liabilities	1,475	833	2,308
Amounts due to customers	485,540	197,741	683,281
Debt securities issued	733,866	936,722	1,670,588
Provisions	45,356	75,244	120,600
Other liabilities	32,370	2,452	34,822
	2,158,929	1,513,217	3,672,146
Net position	(1,658,514)	(85,164)	(1,743,678)
Accumulated gap	(1,658,514)	(1,743,678)	

31 December 2008	*Within one year*	*More than one year*	*Total*
Assets:			
Cash and cash equivalents	87,893	–	87,893
Obligatory reserves	24,173	39,881	64,054
Financial assets at fair value through profit or loss	128,150	–	128,150
Amounts due from credit institutions	71,925	13,249	85,174
Derivative financial assets	655	20,995	21,650
Available-for-sale investment securities	3,810	16,672	20,482
Loans to customers	851,289	765,774	1,617,063
Other assets	15,994	7,006	23,000
	1,183,889	863,577	2,047,466
Liabilities:			
Amounts due to the Government and central banks	125	1,593	1,718
Amounts due to credit institutions	708,182	95,184	803,366
Derivative financial liabilities	16,689	2,100	18,789
Amounts due to customers	536,302	349,750	886,052
Debt securities issued	722,510	365,216	1,087,726
Provisions	54,294	50,599	104,893
Other liabilities	33,930	506	34,436
	2,072,032	864,948	2,936,980
Net position	(888,143)	(1,371)	(889,514)
Accumulated gap	(888,143)	(889,514)	

(Millions of Kazakh Tenge)

24. Risk management policies (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the trading and non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity of Group's income statement to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 30 September 2009. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 30 September 2009 for the effects of the projected changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*(Decrease)/increase in basis points 30 September 2009 (unaudited)*	*Sensitivity of net interest income 30 September 2009 (unaudited)*	*Sensitivity of equity 30 September 2009 (unaudited)*
LIBOR:			
USD	-20/20	407/(407)	10/(10)
KZT	-20/20	(322)/322	63/(63)
EUR	-20/20	153/(153)	–
CHF	-20/20	57/(57)	–
JPY	-20/20	349/(349)	–

Currency	*(Decrease)/increase in basis points 31 December 2008*	*Sensitivity of net interest income 31 December 2008*	*Sensitivity of equity 31 December 2008*
LIBOR:			
USD	-59/59	2,372/(2,372)	711/(711)
KZT	-59/59	1,699/(1,699)	217/(217)
EUR	-59/59	1,080/(1,080)	–
CHF	-59/59	177/(177)	–
JPY	-59/59	804/(804)	–

As at 30 September 2009 the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	30 September 2009 (unaudited)		*30 September 2008*	
	KZT	*Foreign currency*	*KZT*	*Foreign currency*
Financial assets at fair value through profit or loss	11.1%	6.7%	8.0%	4.6%
Amounts due from credit institutions	12.9%	5.3%	10.1%	7.7%
Available-for-sale investment securities	13.8%	8.7%	11.2%	4.4%
Loans to customers	16.5%	17.1%	17.4%	14.5%
Bonds of NWF Samruk-Kazyna	7.7%	–	–	–
Amounts due to the Government and National bank	8.4%	5.4%	4.2%	4.1%
Amounts due to credit institutions	9.0%	5.3%	7.4%	7.2%
Amounts due to customers	8.6%	9.6%	9.7%	7.5%
Debt securities issued	12.4%	8.4%	12.6%	7.9%

(Millions of Kazakh Tenge)

24. Risk management policies (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Risk Committee has set limits on positions by currency based on the FMSA regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 30 September 2009 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Tenge would have resulted in an equivalent but opposite impact.

Currency	*Change in currency rate in % as at 30 September 2009 (unaudited)*	*Effect on profit before tax as at 30 September 2009 (unaudited)*	*Change in currency rate in % 31 December 2008*	*Effect on profit before tax 31 December 2008*
USD	+19.1	(131,627)	+15.4	(61,315)
EUR	+24.3	(65,995)	+15.2	(22,811)
RUR	+25.4	(9,174)	+8.3	(1,043)
CHF	+24.7	(6,961)	+16.4	(3,624)
JPY	+25.3	(60,235)	+22.4	(47,122)
PLZ	+30.3	(3,211)	–	–
UAH	+37.1	8	–	–
GBP	+26.7	(13,608)	+23.2	(10,892)
KGS	–	–	+15.0	517

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares. The equity price risk exposure arises from the Bank's investment and trading portfolios.

The effect on profit and equity (as a result of a change in the fair value of financial assets at fair value through profit or loss and equity instruments held as available-for-sale at 30 September 2009) due to a reasonably possible change in equity indices using Capital Asset Pricing Model, with all other variables held constant, is as follows:

Market index	*Increase in indices as at 30 September 2009, % (unaudited)*	*Effect on profit before tax and equity as at 30 September 2009 (unaudited)*	*Increase in indices as at 31 December 2008, %*	*Effect on profit before tax and equity as at31 December 2008*
KASE	72.48%	1,278	66.49%	773
RTC	–	–	72.77%	7,913
MSCI World Index	16.58%	3,526	39.61%	3,422
FTSE	10.22%	416	–	–
MICEX	85.44%	50	59.35%	3
NYSE	13.70%	44	–	–
PFTS (Ukraine)	–	–	73.85%	481

Market index	*Decrease in indices as at 30 September 2009, % (unaudited)*	*Effect on profit before tax and equity as at 30 September 2009 (unaudited)*	*Decrease in indices as at 31 December 2008, %*	*Effect on profit before tax and equity as at 31 December 2008*
KASE	-72.48%	(898)	-66.49%	1,024
RTC	–	–	-72.77%	(5,827)
MSCI World Index	-16.58%	(2,574)	-39.61%	(3,151)
FTSE	-10.22%	(488)	-59.35%	4
MICEX	-85.44%	(50)	–	–
NYSE	-13.70%	(41)	–	–
PFTS (Ukraine)	–	–	-73.85%	601

(Millions of Kazakh Tenge)

24. Risk management policies (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

25. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 September 2009 (unaudited)			*31 December 2008*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Financial assets						
Financial assets at fair value through profit or loss	109,892	–	10,756	128,150	–	–
Derivative financial assets	–	–	31,346	–	–	21,650
Available-for-sale investment securities	21,212	–	1,032	20,482	–	–
Financial liabilities						
Derivative financial liabilities	–	–	2,308	–	–	18,789

26. Segment analysis

For management purposes, the Group is organised into four operating segments:

Corporate banking – representing other than small and medium size legal entities direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

Small and medium business – representing individual entrepreneurs and small enterprises current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products.

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and cash and foreign currency related services.

Investment activity - representing financial assets and liabilities used for trading or investment purposes, financing, and merger and acquisitions transaction support.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

(Millions of Kazakh Tenge)

26. Segment analysis (continued)

Segment information for the main reportable operating segments of the Group for the nine-month periods ended 30 September 2009 and 2008, following the results of segment activity and as at 30 September 2009 and 31 December 2008 according to segment's financial position is set out below:

30 September 2009 (unaudited)	*Corporate banking*	*Small and medium business*	*Retail banking*	*Investing activity*	*Unallocated amounts*	*Elimination*	*Total*
External interest income	82,411	22,315	33,068	56,023	117	–	193,934
Internal interest income	79,802	2,912	11,609	74,729	–	(169,052)	–
External interest expense	(14,624)	(3,645)	(22,936)	(154,330)	(420)	–	(195,955)
Internal interest expense	(79,187)	(2,912)	(11,609)	(75,344)	–	169,052	–
Net interest income before impairment	68,402	18,670	10,132	(98,922)	(303)	–	(2,021)
Impairment charge	(538,597)	(45,253)	(56,617)	(1,053)	(84)	–	(641,604)
Net loss after impairment	(470,195)	(26,583)	(46,485)	(99,975)	(387)	–	(643,625)
Net commission and non-interest income	(268,128)	15,083	27,758	(102,102)	(6,511)	(929)	(334,829)
Depreciation and amortizations	(426)	(336)	(1,242)	(1,500)	(200)	–	(3,704)
Non-interest expenses	(11,033)	(6,515)	(17,800)	(5,049)	(740)	929	(40,208)
Other provisions	23,922	(1,120)	(22)	(16,237)	(128)	–	6,415
Share in net loss of associate organizations	–	–	–	4,169	–	–	4,169
Impairment loss of available-for-sale investment securities	–	–	–	(1,243)	–	–	(1,243)
Impairment loss on goodwill	(10,790)	–	(22,095)	–	–	–	(32,885)
Loss before income tax expense	(736,650)	(19,471)	(59,886)	(221,937)	(7,966)	–	(1,045,910)
Income tax expense	–	–	–	–	(3,628)	–	(3,628)
Net loss after income tax	(736,650)	(19,471)	(59,886)	(221,937)	(11,594)	–	(1,049,538)
Total assets at 30 September 2009	876,775	174,738	387,990	1,921,445	32,551	(1,345,372)	2,048,127
Total liabilities at 30 September 2009	652,032	139,270	273,954	3,757,289	94,178	(1,244,577)	3,672,146
Other segment information							
Investments in associates	–	–	–	80,372	–	–	80,372

(Millions of Kazakh Tenge)

26. Segment analysis (continued)

Nine months ended 30 September 2008 (unaudited)	*Corporate banking*	*Small and medium business*	*Retail banking*	*Investing activity*	*Unallocated amounts*	*Elimination*	*Total*
External interest income	175,008	31,585	59,666	31,895	–	–	298,154
Internal interest income	36,843	6,385	26,855	184,081	3,588	(257,752)	–
External interest expense	(19,863)	(2,535)	(26,541)	(111,483)	–	–	(160,422)
Internal interest expense	(147,273)	(18,787)	(34,076)	(57,616)	–	257,752	–
Net interest income before impairment	44,715	16,648	25,904	46,877	3,588	–	137,732
Impairment charge	(65,480)	(1,595)	(12,493)	(451)	–	–	(80,019)
Net (loss)/income after impairment	(20,765)	15,053	13,411	46,426	3,588	–	57,713
Net commission and non-interest income	23,198	8,124	4,320	4,140	418	(10,370)	29,830
Depreciation and amortizations	(528)	(358)	(1,042)	(1,165)	(189)	–	(3,282)
Non-interest expenses	(22,008)	(8,586)	(14,264)	(10,584)	(856)	10,370	(45,928)
Other provisions	(435)	(271)	(51)	(33)	314	–	(476)
Share in net income of associate organizations	–	–	–	4,193	–	–	4,193
Income before income tax expense	(20,538)	13,962	2,374	42,977	3,275	–	42,050
Income tax expense	–	–	–	–	(6,838)	–	(6,838)
Net income after income tax	(20,538)	13,962	2,374	42,977	(3,563)	–	35,212
Total assets at 31 December 2008	1,063,977	213,297	437,161	1,391,441	312,200	(1,223,875)	2,194,201
Total liabilities at 31 December 2008	701,257	152,140	372,745	2,758,664	26,250	(1,074,076)	2,936,980
Other segment information							
Investments in associates	–	–	–	72,371	–	–	72,371

(Millions of Kazakh Tenge)

27. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties, except those, who are subject to the restriction of the legislation, may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

As at 30 September 2009 and 31 December 2008 the Group had the following transactions with related parties:

	30 September 2009 (unaudited)					31 December 2008			
	Shareholders	Companies under common control	Associates	Key management personnel	Other related parties	Shareholders	Associates	Key management personnel	Other related parties
Loans outstanding at 1 January, gross	–	–	–	1,295	7	–	–	8,210	1,352
Loans issued during the period	–	9,256	–	147	–	–	–	1,439	2
Loan repayments during the period	–	(4,786)	–	(862)	(4)	–	–	(8,354)	(1,347)
Loans outstanding at 30 September, gross	–	4,470	–	580	3	–	–	1,295	7
Less: allowance for impairment at 30 September	–	–	–	–	–	–	–	–	–
Loans outstanding at 30 September, net	–	4,470	–	580	3	–	–	1,295	7
Amounts due from credit institutions (deposits)									
Deposits at 1 January	–	–	6,359	–	–	–	5,096	–	5,582
Deposits placed during the period	–	–	10,189	–	–	–	24,842	–	–
Deposits withdrawn during the period	–	–	(13,650)	–	–	–	(23,579)	–	(5,582)
Deposits at 30 September	–	–	2,898	–	–	–	6,359	–	–
Amounts due from credit institutions (loans)									
Loans at 1 January	–	–	7,329	–	–	–	9,497	–	8,398
Loans issued during the period	–	–	7,192	–	–	–	26,394	–	–
Loan repayments during the period	–	–	(7,856)	–	–	–	(28,562)	–	(8,398)
Loans at 30 September, gross	–	–	6,665	–	–	–	7,329	–	–
Less: allowance for impairment at 30 September	–	–	(4,387)	–	–	–	(3,683)	–	–
Loans at 30 September, net	–	–	2,278	–	–	–	3,646	–	–

(Millions of Kazakh Tenge)

27. Related party transactions (continued)

	30 September 2009 (unaudited)					31 December 2008			
	Shareholders	*Companies under common control*	*Associates*	*Key management personnel*	*Other related parties*	*Shareholders*	*Associates*	*Key management personnel*	*Other related parties*
Amounts due to credit institutions									
Loans at 1 January	–	–	6,883	–	–	–	430	–	558
Loans received during the period	–	67,942	58,463	–	–	–	494,489	–	–
Loans repaid during the period	–	(24,599)	(61,774)	–	–	–	(488,036)	–	(558)
Loans at 30 September	–	43,343	3,572	–	–	–	6,883	–	–
Financial assets at fair value through profit or loss	–	–	–	–	–	–	–	–	–
Balances at 1 January	–	–	–	–	–	..	1,619	–	–
Securities purchased during the period		123,190	–	–	–	–	416	–	–
Securities sold during the period		(49,103)	–	–	–	–	(2,035)	–	–
Securities at 30 September		74,087	–	–	–	–	–	–	–
Cash and cash equivalents									
Deposits at 1 January	–	–	695	–	–	–	1	–	1,281
Deposits placed during the period	–	47,841	42,266	–	–	–	859,637	–	–
Deposits withdrawn during the period	–	(47,841)	(42,215)	–	–	–	(858,943)	–	(1,281)
Deposits at 30 September, gross	–	–	746	–	–	–	695	–	–
Less: allowance for impairment at 30 September	–	–	(167)	–	–	–	(28)	–	–
Deposits at 30 September, net	–	–	579	–	–	–	667	–	–
Bonds of NWF Samruk-Kazyna	511,097	–	–	–	–	–	–	–	–
Amounts due to customers	–	–	–	–	–	–	–	–	–
Deposits at 1 January	6	–	–	705	287	18	–	4,151	4,796
Deposits placed during the period	227,088	–	–	541	261	668	–	48,083	1,379
Deposits withdrawn during the period	(65,501)	–	–	(1,219)	(544)	(680)	–	(51,529)	(5,888)
Deposits at the end of period	161,593	–	–	27	4	6	–	705	287
Commitments and guarantees issued	–	10,134	2,063	3	–	–	9,145	3	–
Less: allowance for impairment	–	–	(2,004)	–	–	–	(7,741)	–	–
Commitments issued, net	–	10,134	59	3	–	–	1,404	3	–
Commitments and guarantees received	–	–	189,501	–	–	–	3,105	–	–

(Millions of Kazakh Tenge)

27. Related party transactions (continued)

	Nine month period ended 30 September								
	2009 (unaudited)					*2008 (unaudited)*			
	Shareholders	*Companies under common control*	*Associates*	*Key management personnel*	*Other related parties*	*Shareholders*	*Associates*	*Key management personnel*	*Other related parties*
Interest income on deposits up to 90 days	–	2	191	–	–	–	55	–	9
Interest income on loans		773	–	35	–	–	–	534	2
Interest income Bonds of NWF Samruk-Kazyna	20,502	–	–	–	–	–	–	–	–
Interest income on due from credit institutions	–	–	961	–	–	–	1,130	–	1,721
Interest expense on due to credit institutions	–	(2,503)	(211)	–	–	–	(138)	–	(17)
Interest expense on due to customers	(4,208)	–	–	(1)	(5)	–	–	(93)	(24)
Interest income on financial assets	–	1,541	–	–	–	–	110	–	–
Fee and commission income	–	–	86	–	–	–	169	–	68
Other income	–	–	–	–	–	–	58	1	–
Other expenses	–	–	(38)	–	–	–	(38)	–	–

The aggregate remuneration and other benefits paid to members of the Management Board and Board of Directors for the nine month period ended 30 September 2009 was KZT 428 million (30 September 2008 - KZT 490 million).

Included in the table above are the following transactions with related parties outstanding as at 30 September 2009 and 31 December 2008:

- Operations with associates such as: loans - including provisioning matters, due from credit institutions (loans issued and deposits placed) with the Group and guarantees and letters of credit to investees, and mutual investments.
- Shareholders: deposits placed with the Group and debt securities purchased from the Parent.
- Members of Board of Directors: loans - including provisioning matters, deposits attracted with the Group, total remuneration paid during the period.

(Millions of Kazakh Tenge)

28. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the FMSA in supervising the Bank.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

In accordance with terms of debt securities issued and loan agreements the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. Furthermore, the Bank is required to maintain a certain level of credit rating from major rating agencies.

As at 30 September 2009 the Bank is in breach of equity adequacy covenants calculated in accordance with the Basel Capital Accord 1988 and the ratios established by the FMSA in supervising the Bank.

The Group, with the Government's support, is in the process of restructuring these debts and the Bank's controlling shareholder and the management considers that the restructuring of the above facilities will be completed by the end of 2010.

29. Subsequent events

Transfer of Temirbank

On 14 October 2009 BTA Bank JSC and Samruk-Kazyna JSC signed an Agreement on transfer of 13,318,319 ordinary shares of Temirbank owned by BTA Bank JSC under the trust management agreement.

Purchase of additional shares of Oranta NJSIC OJSC

In December 2009 the Bank purchased additional 16.37% share in Oranta NJSIC OJSC for KZT 2,516 million, as a result the Group's equity interest in Oranta increased to 30.39%.

Purchase of shares of Accumulated Pension Fund Ular-Umit JSC and Zhetusy Pension Asset Management Company JSC

In January 2010 the Bank obtained a 74.99% share in Accumulated pension fund Ular-Umit JSC and 74.99% share in Zhetysu Pension asset management company JSC in discharge of liabilities to the Bank of LLP Astana Stroiservice, LLP Kazakhstan Standart Invest and LLP Logistic Technopark CM.

Term sheet

On 7 December 2009 the Bank and the Creditors' Steering Committee signed a principal commercial term sheet for the Bank's restructuring plan. In accordance with requirements of this term sheet the Bank's senior financial creditor debt totaling a principal of US 10.26 billion equivalent of KZT 1,550 billion and junior debt totaling a principal of US 1.35 billion equivalent of KZT 204 billion will be restructured through issuing new senior and subordinated debt, Revolving Committed Trade Finance Facility and exchange of debt to equity. The Bank expects that the restructuring will result in gain and increase in regulatory capital to comply with FMSA requirements.

In February 2010, the Bank appealed to the US bankruptcy court under jurisdiction of South county of New York state in order to recognise the Bank's restructuring process legitimate inside the US. This appeal was made in accordance with US legislation regulating bankruptcy issues. It was made after the positive Order of High court of Justice of England and Wales, made on 18 December 2009, on recognising the process of restructuring the Bank's financial debt as legitimate in the territory of England and Wales, and aimed at obtaining international recognition of legitimacy of the Bank's restructuring process by countries that ratified 1997 UNCITRAL Model Law on Cross-Border Insolvency.

(Millions of Kazakh Tenge)

29. Subsequent events (continued)

LLC "TuranAlem Finance"

On 17 December 2009 Goldman Sacks LLC filed a suit to Moscow court of arbitration against Subsidiary of BTA Bank JSC TuranAlemFinance LLC and BTA Bank JSC regarding collection of joint debts on TuranAlem Finance LLC bonds, that were guaranteed by the Bank for the total amount of RUR 3,178 million or KZT 16 billion.

The suit was filed against TuranAlem Finance LLC and BTA Bank JSC, in connection with nonfulfillment by TuranAlem Finance LLC of its obligations on payment of nominal amount of issued bonds and accrued coupon interest on these bonds, and in connection with nonfulfillment by BTA Bank JSC of its commitments under guarantee agreement dated 11 October 2005 with respect to execution of joint obligations under TuranAlem Finance LLC bonds.

The Bank filed an Application to Moscow court of arbitration on recognition in Russian Federation of the Ruling of Specialised financial court of Almaty city, Republic of Kazakhstan dated 16 October 2009 concerning the restructuring of the Bank. The Bank believes that decision of Moscow court will confirm that above debts are subject to Restructuring and protect from the above claim.